

REFERENCE TITLE: tax credits; deductions; exemptions; sunset

State of Arizona
House of Representatives
Forty-ninth Legislature
First Regular Session
2009

HB 2473

Introduced by
Representatives Chabin, Pancrazi: Ableser, Miranda B, Waters

AN ACT

AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5039; AMENDING SECTIONS 42-5061, 42-5159, 43-223, 43-1071, 43-1072, 43-1072.01, 43-1073, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2001, CHAPTER 115, SECTION 19; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2008, CHAPTER 290, SECTION 2; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2008, CHAPTER 290, SECTION 4; AMENDING SECTIONS 43-1075.01, 43-1077, 43-1078, 43-1079, 43-1079.01, 43-1080, 43-1081, 43-1081.01, 43-1083, 43-1084, 43-1087, 43-1088, 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1163.01, 43-1165, 43-1166, 43-1167 AND 43-1167.01, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2001, CHAPTER 115, SECTION 28; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2008, CHAPTER 290, SECTION 5; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2008, CHAPTER 290, SECTION 7; AMENDING SECTION 43-1169, 43-1170, 43-1170.01, 43-1175, 43-1176, 43-1178 AND 43-1181, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 42, chapter 5, article 1, Arizona Revised Statutes,
3 is amended by adding section 42-5039, to read:

4 42-5039. Requirements for new income tax deductions and
5 exemptions established by the legislature

6 ANY NEW TRANSACTION PRIVILEGE TAX DEDUCTION OR EXEMPTION THAT IS
7 ESTABLISHED BY THE LEGISLATURE UNDER THIS CHAPTER SHALL INCLUDE IN ITS
8 ENABLING LEGISLATION A SPECIFIC REPEAL DATE FOR THE DEDUCTION OR EXEMPTION.
9 THE SPECIFIC REPEAL DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH
10 FULL CALENDAR YEAR FOLLOWING THE DATE THE DEDUCTION OR EXEMPTION IS ENACTED.

11 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to read:

12 42-5061. Retail classification; definitions

13 A. The retail classification is comprised of the business of selling
14 tangible personal property at retail. The tax base for the retail
15 classification is the gross proceeds of sales or gross income derived from
16 the business. The tax imposed on the retail classification does not apply to
17 the gross proceeds of sales or gross income from:

18 1. Professional or personal service occupations or businesses which
19 involve sales or transfers of tangible personal property only as
20 inconsequential elements.

21 2. Services rendered in addition to selling tangible personal property
22 at retail.

23 3. Sales of warranty or service contracts. The storage, use or
24 consumption of tangible personal property provided under the conditions of
25 such contracts is subject to tax under section 42-5156.

26 4. Sales of tangible personal property by any nonprofit organization
27 organized and operated exclusively for charitable purposes and recognized by
28 the United States internal revenue service under section 501(c)(3) of the
29 internal revenue code.

30 5. Sales to persons engaged in business classified under the
31 restaurant classification of articles used by human beings for food, drink or
32 condiment, whether simple, mixed or compounded.

33 6. Business activity which is properly included in any other business
34 classification which is taxable under THIS article ~~2 of this chapter~~.

35 7. The sale of stocks and bonds.

36 8. Drugs and medical oxygen, including delivery hose, mask or tent,
37 regulator and tank, on the prescription of a member of the medical, dental or
38 veterinarian profession who is licensed by law to administer such substances.

39 9. Prosthetic appliances as defined in section 23-501 prescribed or
40 recommended by a health professional licensed pursuant to title 32, chapter
41 7, 8, 11, 13, 14, 15, 16, 17 or 29.

42 10. Insulin, insulin syringes and glucose test strips.

43 11. Prescription eyeglasses or contact lenses.

44 12. Hearing aids as defined in section 36-1901.

1 13. Durable medical equipment which has a centers for medicare and
2 medicaid services common procedure code, is designated reimbursable by
3 medicare, is prescribed by a person who is licensed under title 32, chapter
4 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
5 customarily used to serve a medical purpose, is generally not useful to a
6 person in the absence of illness or injury and is appropriate for use in the
7 home.

8 14. Sales to nonresidents of this state for use outside this state if
9 the vendor ships or delivers the tangible personal property out of this
10 state.

11 15. Food, as provided in and subject to the conditions of article 3 of
12 this chapter and section 42-5074.

13 16. Items purchased with United States department of agriculture food
14 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
15 958) or food instruments issued under section 17 of the child nutrition act
16 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
17 section 1786).

18 17. Textbooks by any bookstore that are required by any state
19 university or community college.

20 18. Food and drink to a person who is engaged in business which is
21 classified under the restaurant classification and which provides such food
22 and drink without monetary charge to its employees for their own consumption
23 on the premises during the employees' hours of employment.

24 19. Articles of food, drink or condiment and accessory tangible
25 personal property to a school district if such articles and accessory
26 tangible personal property are to be prepared and served to persons for
27 consumption on the premises of a public school within the district during
28 school hours.

29 20. Lottery tickets or shares pursuant to title 5, chapter 5,
30 article 1.

31 21. The sale of precious metal bullion and monetized bullion to the
32 ultimate consumer, but the sale of coins or other forms of money for
33 manufacture into jewelry or works of art is subject to the tax. For the
34 purposes of this paragraph:

35 (a) "Monetized bullion" means coins and other forms of money which are
36 manufactured from gold, silver or other metals and which have been or are
37 used as a medium of exchange in this or another state, the United States or a
38 foreign nation.

39 (b) "Precious metal bullion" means precious metal, including gold,
40 silver, platinum, rhodium and palladium, which has been smelted or refined so
41 that its value depends on its contents and not on its form.

42 22. Motor vehicle fuel and use fuel which are subject to a tax imposed
43 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
44 valid single trip use fuel tax permit issued under section 28-5739, sales of
45 aviation fuel which are subject to the tax imposed under section 28-8344 and

1 sales of jet fuel which are subject to the tax imposed under article 8 of
2 this chapter.

3 23. Tangible personal property sold to a person engaged in the business
4 of leasing or renting such property under the personal property rental
5 classification if such property is to be leased or rented by such person.

6 24. Tangible personal property sold in interstate or foreign commerce
7 if prohibited from being so taxed by the Constitution of the United States or
8 the constitution of this state.

9 25. Tangible personal property sold to:

10 (a) A qualifying hospital as defined in section 42-5001.

11 (b) A qualifying health care organization as defined in section
12 42-5001 if the tangible personal property is used by the organization solely
13 to provide health and medical related educational and charitable services.

14 (c) A qualifying health care organization as defined in section
15 42-5001 if the organization is dedicated to providing educational,
16 therapeutic, rehabilitative and family medical education training for blind,
17 visually impaired and multihandicapped children from the time of birth to age
18 twenty-one.

19 (d) A qualifying community health center as defined in section
20 42-5001.

21 (e) A nonprofit charitable organization that has qualified under
22 section 501(c)(3) of the internal revenue code and that regularly serves
23 meals to the needy and indigent on a continuing basis at no cost.

24 (f) For taxable periods beginning from and after June 30, 2001, a
25 nonprofit charitable organization that has qualified under section 501(c)(3)
26 of the internal revenue code and that provides residential apartment housing
27 for low income persons over sixty-two years of age in a facility that
28 qualifies for a federal housing subsidy, if the tangible personal property is
29 used by the organization solely to provide residential apartment housing for
30 low income persons over sixty-two years of age in a facility that qualifies
31 for a federal housing subsidy.

32 26. Magazines or other periodicals or other publications by this state
33 to encourage tourist travel.

34 27. Tangible personal property sold to a person that is subject to tax
35 under this article by reason of being engaged in business classified under
36 the prime contracting classification under section 42-5075, or to a
37 subcontractor working under the control of a prime contractor that is subject
38 to tax under article 1 of this chapter, if the property so sold is any of the
39 following:

40 (a) Incorporated or fabricated by the person into any real property,
41 structure, project, development or improvement as part of the business.

42 (b) Used in environmental response or remediation activities under
43 section 42-5075, subsection B, paragraph 6.

44 (c) Incorporated or fabricated by the person into any lake facility
45 development in a commercial enhancement reuse district under conditions

prescribed for the deduction allowed by section 42-5075, subsection B, paragraph 8.

28. The sale of a motor vehicle to:

(a) A nonresident of this state if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

(b) An enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe.

29. Tangible personal property purchased in this state by a nonprofit charitable organization that has qualified under section 501(c)(3) of the United States internal revenue code and that engages in and uses such property exclusively in programs for mentally or physically handicapped persons if the programs are exclusively for training, job placement, rehabilitation or testing.

30. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is associated with a major league baseball team or a national touring professional golfing association and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

31. Sales of commodities, as defined by title 7 United States Code section 2, that are consigned for resale in a warehouse in this state in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market regulated by the United States commodity futures trading commission.

32. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

33. Sales of seeds, seedlings, roots, bulbs, cuttings and other propagative material to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state.

34. Machinery, equipment, technology or related supplies that are only useful to assist a person who is physically disabled as defined in section 46-191, has a developmental disability as defined in section 36-551 or has a head injury as defined in section 41-3201 to be more independent and functional.

35. Sales of tangible personal property that is shipped or delivered directly to a destination outside the United States for use in that foreign country.

36. Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle.

37. Paper machine clothing, such as forming fabrics and dryer felts, sold to a paper manufacturer and directly used or consumed in paper manufacturing.

38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to a qualified environmental technology manufacturer, producer or processor as defined in section 41-1514.02 and directly used or consumed in the generation or provision of on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection. This paragraph shall apply for fifteen full consecutive calendar or fiscal years from the date the first paper manufacturing machine is placed in service. In the case of an environmental technology manufacturer, producer or processor who does not manufacture paper, the time period shall begin with the date the first manufacturing, processing or production equipment is placed in service.

39. Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect any deduction for such chemicals that is otherwise provided by this section. For the purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

40. Through December 31, 1994, personal property liquidation transactions, conducted by a personal property liquidator. From and after December 31, 1994, personal property liquidation transactions shall be taxable under this section provided that nothing in this subsection shall be construed to authorize the taxation of casual activities or transactions under this chapter. For the purposes of this paragraph:

(a) "Personal property liquidation transaction" means a sale of personal property made by a personal property liquidator acting solely on behalf of the owner of the personal property sold at the dwelling of the owner or upon the death of any owner, on behalf of the surviving spouse, if any, any devisee or heir or the personal representative of the estate of the deceased, if one has been appointed.

(b) "Personal property liquidator" means a person who is retained to conduct a sale in a personal property liquidation transaction.

41. Sales of food, drink and condiment for consumption within the premises of any prison, jail or other institution under the jurisdiction of

1 the state department of corrections, the department of public safety, the
2 department of juvenile corrections or a county sheriff.

3 42. A motor vehicle and any repair and replacement parts and tangible
4 personal property becoming a part of such motor vehicle sold to a motor
5 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
6 and who is engaged in the business of leasing or renting such property.

7 43. Livestock and poultry feed, salts, vitamins and other additives for
8 livestock or poultry consumption that are sold to persons who are engaged in
9 producing livestock, poultry, or livestock or poultry products or who are
10 engaged in feeding livestock or poultry commercially. For the purposes of
11 this paragraph, "poultry" includes ratites.

12 44. Sales of implants used as growth promotants and injectable
13 medicines, not already exempt under paragraph 8 of this subsection, for
14 livestock or poultry owned by or in possession of persons who are engaged in
15 producing livestock, poultry, or livestock or poultry products or who are
16 engaged in feeding livestock or poultry commercially. For the purposes of
17 this paragraph, "poultry" includes ratites.

18 45. Sales of motor vehicles at auction to nonresidents of this state
19 for use outside this state if the vehicles are shipped or delivered out of
20 this state, regardless of where title to the motor vehicles passes or its
21 free on board point.

22 46. Tangible personal property sold to a person engaged in business and
23 subject to tax under the transient lodging classification if the tangible
24 personal property is a personal hygiene item or articles used by human beings
25 for food, drink or condiment, except alcoholic beverages, which are furnished
26 without additional charge to and intended to be consumed by the transient
27 during the transient's occupancy.

28 47. Sales of alternative fuel, as defined in section 1-215, to a used
29 oil fuel burner who has received a permit to burn used oil or used oil fuel
30 under section 49-426 or 49-480.

31 48. Sales of materials that are purchased by or for publicly funded
32 libraries including school district libraries, charter school libraries,
33 community college libraries, state university libraries or federal, state,
34 county or municipal libraries for use by the public as follows:

35 (a) Printed or photographic materials, beginning August 7, 1985.

36 (b) Electronic or digital media materials, beginning July 17, 1994.

37 49. Tangible personal property sold to a commercial airline and
38 consisting of food, beverages and condiments and accessories used for serving
39 the food and beverages, if those items are to be provided without additional
40 charge to passengers for consumption in flight. For the purposes of this
41 paragraph, "commercial airline" means a person holding a federal certificate
42 of public convenience and necessity or foreign air carrier permit for air
43 transportation to transport persons, property or United States mail in
44 intrastate, interstate or foreign commerce.

50. Sales of alternative fuel vehicles if the vehicle was manufactured as a diesel fuel vehicle and converted to operate on alternative fuel and equipment that is installed in a conventional diesel fuel motor vehicle to convert the vehicle to operate on an alternative fuel, as defined in section 1-215.

51. Sales of any spirituous, vinous or malt liquor by a person that is licensed in this state as a wholesaler by the department of liquor licenses and control pursuant to title 4, chapter 2, article 1.

52. Sales of tangible personal property to be incorporated or installed as part of environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.

53. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(6) of the internal revenue code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

54. Through August 31, 2014, sales of Arizona centennial medallions by the historical advisory commission.

55. Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased by or for any school district, charter school, community college or state university. For the purposes of this paragraph:

(a) "Application services" means software applications provided remotely using hypertext transfer protocol or another network protocol.

(b) "Curriculum design or enhancement" means planning, implementing or reporting on courses of study, lessons, assignments or other learning activities.

B. In addition to the deductions from the tax base prescribed by subsection A of this section, the gross proceeds of sales or gross income derived from sales of the following categories of tangible personal property shall be deducted from the tax base:

1. Machinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations. The terms "manufacturing", "processing", "fabricating", "job printing", "refining" and "metallurgical" as used in this paragraph refer to and include those operations commonly understood within their ordinary meaning. "Metallurgical operations" includes leaching, milling, precipitating, smelting and refining.

2. Mining machinery, or equipment, used directly in the process of extracting ores or minerals from the earth for commercial purposes, including equipment required to prepare the materials for extraction and handling, loading or transporting such extracted material to the surface. "Mining" includes underground, surface and open pit operations for extracting ores and minerals.

3. Tangible personal property sold to persons engaged in business classified under the telecommunications classification and consisting of central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems.

4. Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution. Transformers and control equipment used at transmission substation sites constitute equipment used in producing or transmitting electrical power.

5. Neat animals, horses, asses, sheep, ratites, swine or goats used or to be used as breeding or production stock, including sales of breedings or ownership shares in such animals used for breeding or production.

6. Pipes or valves four inches in diameter or larger used to transport oil, natural gas, artificial gas, water or coal slurry, including compressor units, regulators, machinery and equipment, fittings, seals and any other part that is used in operating the pipes or valves.

7. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:

(a) A person holding a federal certificate of public convenience and necessity, a supplemental air carrier certificate under federal aviation regulations (14 Code of Federal Regulations part 121) or a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.

(b) Any foreign government for use by such government outside of this state.

(c) Persons who are not residents of this state and who will not use such property in this state other than in removing such property from this state. This subdivision also applies to corporations that are not incorporated in this state, regardless of maintaining a place of business in this state, if the principal corporate office is located outside this state and the property will not be used in this state other than in removing the property from this state.

8. Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engines or aircraft component parts by or on behalf of a certificated or licensed carrier of persons or property.

9. Railroad rolling stock, rails, ties and signal control equipment used directly to transport persons or property.

10. Machinery or equipment used directly to drill for oil or gas or used directly in the process of extracting oil or gas from the earth for commercial purposes.

11. Buses or other urban mass transit vehicles which are used directly to transport persons or property for hire or pursuant to a governmentally

1 adopted and controlled urban mass transportation program and which are sold
2 to bus companies holding a federal certificate of convenience and necessity
3 or operated by any city, town or other governmental entity or by any person
4 contracting with such governmental entity as part of a governmentally adopted
5 and controlled program to provide urban mass transportation.

6 12. Groundwater measuring devices required under section 45-604.

7 13. New machinery and equipment consisting of tractors, tractor-drawn
8 implements, self-powered implements, machinery and equipment necessary for
9 extracting milk, and machinery and equipment necessary for cooling milk and
10 livestock, and drip irrigation lines not already exempt under paragraph 6 of
11 this subsection and that are used for commercial production of agricultural,
12 horticultural, viticultural and floricultural crops and products in this
13 state. For the purposes of this paragraph:

14 (a) "New machinery and equipment" means machinery and equipment which
15 have never been sold at retail except pursuant to leases or rentals which do
16 not total two years or more.

17 (b) "Self-powered implements" includes machinery and equipment that
18 are electric-powered.

19 14. Machinery or equipment used in research and development. For the
20 purposes of this paragraph, "research and development" means basic and
21 applied research in the sciences and engineering, and designing, developing
22 or testing prototypes, processes or new products, including research and
23 development of computer software that is embedded in or an integral part of
24 the prototype or new product or that is required for machinery or equipment
25 otherwise exempt under this section to function effectively. Research and
26 development do not include manufacturing quality control, routine consumer
27 product testing, market research, sales promotion, sales service, research in
28 social sciences or psychology, computer software research that is not
29 included in the definition of research and development, or other
30 nontechnological activities or technical services.

31 15. Machinery and equipment that are purchased by or on behalf of the
32 owners of a soundstage complex and primarily used for motion picture,
33 multimedia or interactive video production in the complex. This paragraph
34 applies only if the initial construction of the soundstage complex begins
35 after June 30, 1996 and before January 1, 2002 and the machinery and
36 equipment are purchased before the expiration of five years after the start
37 of initial construction. For the purposes of this paragraph:

38 (a) "Motion picture, multimedia or interactive video production"
39 includes products for theatrical and television release, educational
40 presentations, electronic retailing, documentaries, music videos, industrial
41 films, CD-ROM, video game production, commercial advertising and television
42 episode production and other genres that are introduced through developing
43 technology.

44 (b) "Soundstage complex" means a facility of multiple stages including
45 production offices, construction shops and related areas, prop and costume

shops, storage areas, parking for production vehicles and areas that are leased to businesses that complement the production needs and orientation of the overall facility.

16. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:

(a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25.

(b) Any satellite television or data transmission facility, if both of the following conditions are met:

(i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations part 25.

(ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 14 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

(a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to reduce contamination or to control airflow, temperature, humidity, chemical purity or other environmental conditions or manufacturing tolerances, as well as the production machinery and equipment operating in conjunction with the clean room environment.

(b) Does not include the building or other permanent, nonremovable component of the building that houses the clean room environment.

18. Machinery and equipment used directly in the feeding of poultry, the environmental control of housing for poultry, the movement of eggs within a production and packaging facility or the sorting or cooling of eggs. This exemption does not apply to vehicles used for transporting eggs.

1 19. Machinery or equipment, including related structural components,
2 that is employed in connection with manufacturing, processing, fabricating,
3 job printing, refining, mining, natural gas pipelines, metallurgical
4 operations, telecommunications, producing or transmitting electricity or
5 research and development and that is used directly to meet or exceed rules or
6 regulations adopted by the federal energy regulatory commission, the United
7 States environmental protection agency, the United States nuclear regulatory
8 commission, the Arizona department of environmental quality or a political
9 subdivision of this state to prevent, monitor, control or reduce land, water
10 or air pollution.

11 20. Machinery and equipment that are sold to a person engaged in the
12 commercial production of livestock, livestock products or agricultural,
13 horticultural, viticultural or floricultural crops or products in this state
14 and that are used directly and primarily to prevent, monitor, control or
15 reduce air, water or land pollution.

16 21. Machinery or equipment that enables a television station to
17 originate and broadcast or to receive and broadcast digital television
18 signals and that was purchased to facilitate compliance with the
19 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
20 Code section 336) and the federal communications commission order issued
21 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
22 not exempt any of the following:

23 (a) Repair or replacement parts purchased for the machinery or
24 equipment described in this paragraph.

25 (b) Machinery or equipment purchased to replace machinery or equipment
26 for which an exemption was previously claimed and taken under this paragraph.

27 (c) Any machinery or equipment purchased after the television station
28 has ceased analog broadcasting, or purchased after November 1, 2009,
29 whichever occurs first.

30 22. Qualifying equipment that is purchased from and after June 30, 2004
31 through June 30, 2014 by a qualified business under section 41-1516 for
32 harvesting or the initial processing of qualifying forest products removed
33 from qualifying projects as defined in section 41-1516. To qualify for this
34 deduction, the qualified business at the time of purchase must present its
35 certification approved by the department.

36 23. Machinery, equipment and other tangible personal property used
37 directly in motion picture production by a motion picture production company.
38 To qualify for this deduction, at the time of purchase, the motion picture
39 production company must present to the retailer its certificate that is
40 issued pursuant to section 42-5009, subsection H and that establishes its
41 qualification for the deduction.

42 C. The deductions provided by subsection B of this section do not
43 include sales of:

44 1. Expendable materials. For the purposes of this paragraph,
45 expendable materials do not include any of the categories of tangible

personal property specified in subsection B of this section regardless of the cost or useful life of that property.

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 11 of this section, without regard to the use of such motor vehicles.

6. Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt.

7. Motors and pumps used in drip irrigation systems.

D. In addition to the deductions from the tax base prescribed by subsection A of this section, there shall be deducted from the tax base the gross proceeds of sales or gross income derived from sales of machinery, equipment, materials and other tangible personal property used directly and predominantly to construct a qualified environmental technology manufacturing, producing or processing facility as described in section 41-1514.02. This subsection applies for ten full consecutive calendar or fiscal years after the start of initial construction.

E. In computing the tax base, gross proceeds of sales or gross income from retail sales of heavy trucks and trailers does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4051.

F. In computing the tax base, gross proceeds of sales or gross income from the sale of use fuel, as defined in section 28-5601, does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4091.

G. If a person is engaged in an occupation or business to which subsection A of this section applies, the person's books shall be kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from sales of services, and if not so kept the tax shall be imposed on the total of the person's gross proceeds of sales of tangible personal property and gross income from services.

H. If a person is engaged in the business of selling tangible personal property at both wholesale and retail, the tax under this section applies only to the gross proceeds of the sales made other than at wholesale if the person's books are kept so as to show separately the gross proceeds of sales of each class, and if the books are not so kept, the tax under this section applies to the gross proceeds of every sale so made.

I. A person who engages in manufacturing, baling, crating, boxing, barreling, canning, bottling, sacking, preserving, processing or otherwise preparing for sale or commercial use any livestock, agricultural or

horticultural product or any other product, article, substance or commodity and who sells the product of such business at retail in this state is deemed, as to such sales, to be engaged in business classified under the retail classification. This subsection does not apply to businesses classified under the:

1. Transporting classification.
2. Utilities classification.
3. Telecommunications classification.
4. Pipeline classification.
5. Private car line classification.
6. Publication classification.
7. Job printing classification.
8. Prime contracting classification.
9. Owner builder sales classification.
10. Restaurant classification.

J. The gross proceeds of sales or gross income derived from the following shall be deducted from the tax base for the retail classification:

1. Sales made directly to the United States government or its departments or agencies by a manufacturer, modifier, assembler or repairer.
2. Sales made directly to a manufacturer, modifier, assembler or repairer if such sales are of any ingredient or component part of products sold directly to the United States government or its departments or agencies by the manufacturer, modifier, assembler or repairer.
3. Overhead materials or other tangible personal property that is used in performing a contract between the United States government and a manufacturer, modifier, assembler or repairer, including property used in performing a subcontract with a government contractor who is a manufacturer, modifier, assembler or repairer, to which title passes to the government under the terms of the contract or subcontract.
4. Sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer if the gross proceeds of sales or gross income derived from the property by the manufacturer, modifier, assembler or repairer will be exempt under paragraph 3 of this subsection.

K. There shall be deducted from the tax base fifty per cent of the gross proceeds or gross income from any sale of tangible personal property made directly to the United States government or its departments or agencies, which is not deducted under subsection J of this section.

L. The department shall require every person claiming a deduction provided by subsection J or K of this section to file on forms prescribed by the department at such times as the department directs a sworn statement disclosing the name of the purchaser and the exact amount of sales on which the exclusion or deduction is claimed.

M. In computing the tax base, gross proceeds of sales or gross income does not include:

1 1. A manufacturer's cash rebate on the sales price of a motor vehicle
2 if the buyer assigns the buyer's right in the rebate to the retailer.

3 2. The waste tire disposal fee imposed pursuant to section 44-1302.

4 N. There shall be deducted from the tax base the amount received from
5 sales of solar energy devices. The retailer shall register with the
6 department as a solar energy retailer. By registering, the retailer
7 acknowledges that it will make its books and records relating to sales of
8 solar energy devices available to the department for examination.

9 O. In computing the tax base in the case of the sale or transfer of
10 wireless telecommunications equipment as an inducement to a customer to enter
11 into or continue a contract for telecommunications services that are taxable
12 under section 42-5064, gross proceeds of sales or gross income does not
13 include any sales commissions or other compensation received by the retailer
14 as a result of the customer entering into or continuing a contract for the
15 telecommunications services.

16 P. For the purposes of this section, a sale of wireless
17 telecommunications equipment to a person who holds the equipment for sale or
18 transfer to a customer as an inducement to enter into or continue a contract
19 for telecommunications services that are taxable under section 42-5064 is
20 considered to be a sale for resale in the regular course of business.

21 Q. Retail sales of prepaid calling cards or prepaid authorization
22 numbers for telecommunications services, including sales of reauthorization
23 of a prepaid card or authorization number, are subject to tax under this
24 section.

25 R. For the purposes of this section, the diversion of gas from a
26 pipeline by a person engaged in the business of:

27 1. Operating a natural or artificial gas pipeline, for the sole
28 purpose of fueling compressor equipment to pressurize the pipeline, is not a
29 sale of the gas to the operator of the pipeline.

30 2. Converting natural gas into liquefied natural gas, for the sole
31 purpose of fueling compressor equipment used in the conversion process, is
32 not a sale of gas to the operator of the compressor equipment.

33 S. If a seller is entitled to a deduction pursuant to subsection B,
34 paragraph 16, subdivision (b) of this section, the department may require the
35 purchaser to establish that the requirements of subsection B, paragraph 16,
36 subdivision (b) of this section have been satisfied. If the purchaser cannot
37 establish that the requirements of subsection B, paragraph 16, subdivision
38 (b) of this section have been satisfied, the purchaser is liable in an amount
39 equal to any tax, penalty and interest which the seller would have been
40 required to pay under article 1 of this chapter if the seller had not made a
41 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
42 section. Payment of the amount under this subsection exempts the purchaser
43 from liability for any tax imposed under article 4 of this chapter and
44 related to the tangible personal property purchased. The amount shall be
45 treated as transaction privilege tax to the purchaser and as tax revenues

1 collected from the seller to designate the distribution base pursuant to
2 section 42-5029.

3 T. For the purposes of section 42-5032.01, the department shall
4 separately account for revenues collected under the retail classification
5 from businesses selling tangible personal property at retail:

6 1. On the premises of a multipurpose facility that is owned, leased or
7 operated by the tourism and sports authority pursuant to title 5, chapter 8.

8 2. At professional football contests that are held in a stadium
9 located on the campus of an institution under the jurisdiction of the Arizona
10 board of regents.

11 U. In computing the tax base for the sale of a motor vehicle to a
12 nonresident of this state, if the purchaser's state of residence allows a
13 corresponding use tax exemption to the tax imposed by article 1 of this
14 chapter and the rate of the tax in the purchaser's state of residence is
15 lower than the rate prescribed in article 1 of this chapter or if the
16 purchaser's state of residence does not impose an excise tax, and the
17 nonresident has secured a special ninety day nonresident registration permit
18 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
19 be deducted from the tax base a portion of the gross proceeds or gross income
20 from the sale so that the amount of transaction privilege tax that is paid in
21 this state is equal to the excise tax that is imposed by the purchaser's
22 state of residence on the nonexempt sale or use of the motor vehicle.

23 V. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE
24 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES SHALL NOT BE DEDUCTED FROM THE
25 TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2016:

26 (a) SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15,
27 16, 17, 19, 20, 21, 22, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37,
28 38, 39, 40, 41, 42, 43, 44, 45, 47, 48, 49, 50, 51, 52, 53, 54 AND 55 OF THIS
29 SECTION.

30 (b) SUBSECTION B, PARAGRAPHS 1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,
31 14, 15, 16 ,17, 18, 19, 20, 21, 22 AND 23 OF THIS SECTION.

32 ~~V.~~ W. For the purposes of this section:

33 1. "Aircraft" includes:

34 (a) An airplane flight simulator that is approved by the federal
35 aviation administration for use as a phase II or higher flight simulator
36 under appendix H, 14 Code of Federal Regulations part 121.

37 (b) Tangible personal property that is permanently affixed or attached
38 as a component part of an aircraft that is owned or operated by a
39 certificated or licensed carrier of persons or property.

40 2. "Other accessories and related equipment" includes aircraft
41 accessories and equipment such as ground service equipment that physically
42 contact aircraft at some point during the overall carrier operation.

43 3. "Selling at retail" means a sale for any purpose other than for
44 resale in the regular course of business in the form of tangible personal
45 property, but transfer of possession, lease and rental as used in the

1 definition of sale mean only such transactions as are found on investigation
2 to be in lieu of sales as defined without the words lease or rental.

3 ~~W.~~ X. For the purposes of subsection J of this section:

4 1. "Assembler" means a person who unites or combines products, wares
5 or articles of manufacture so as to produce a change in form or substance
6 without changing or altering the component parts.

7 2. "Manufacturer" means a person who is principally engaged in the
8 fabrication, production or manufacture of products, wares or articles for use
9 from raw or prepared materials, imparting to those materials new forms,
10 qualities, properties and combinations.

11 3. "Modifier" means a person who reworks, changes or adds to products,
12 wares or articles of manufacture.

13 4. "Overhead materials" means tangible personal property, the gross
14 proceeds of sales or gross income derived from which would otherwise be
15 included in the retail classification, and which are used or consumed in the
16 performance of a contract, the cost of which is charged to an overhead
17 expense account and allocated to various contracts based upon generally
18 accepted accounting principles and consistent with government contract
19 accounting standards.

20 5. "Repairer" means a person who restores or renews products, wares or
21 articles of manufacture.

22 6. "Subcontract" means an agreement between a contractor and any
23 person who is not an employee of the contractor for furnishing of supplies or
24 services that, in whole or in part, are necessary to the performance of one
25 or more government contracts, or under which any portion of the contractor's
26 obligation under one or more government contracts is performed, undertaken or
27 assumed and that includes provisions causing title to overhead materials or
28 other tangible personal property used in the performance of the subcontract
29 to pass to the government or that includes provisions incorporating such
30 title passing clauses in a government contract into the subcontract.

31 Sec. 3. Section 42-5159, Arizona Revised Statutes, is amended to read:

32 42-5159. Exemptions

33 A. The tax levied by this article does not apply to the storage, use
34 or consumption in this state of the following described tangible personal
35 property:

36 1. Tangible personal property sold in this state, the gross receipts
37 from the sale of which are included in the measure of the tax imposed by
38 articles 1 and 2 of this chapter.

39 2. Tangible personal property the sale or use of which has already
40 been subjected to an excise tax at a rate equal to or exceeding the tax
41 imposed by this article under the laws of another state of the United States.
42 If the excise tax imposed by the other state is at a rate less than the tax
43 imposed by this article, the tax imposed by this article is reduced by the
44 amount of the tax already imposed by the other state.

1 3. Tangible personal property, the storage, use or consumption of
2 which the constitution or laws of the United States prohibit this state from
3 taxing or to the extent that the rate or imposition of tax is
4 unconstitutional under the laws of the United States.

5 4. Tangible personal property which directly enters into and becomes
6 an ingredient or component part of any manufactured, fabricated or processed
7 article, substance or commodity for sale in the regular course of business.

8 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
9 which in this state is subject to the tax imposed under title 28, chapter 16,
10 article 1, use fuel which is sold to or used by a person holding a valid
11 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
12 the sales, distribution or use of which in this state is subject to the tax
13 imposed under section 28-8344, and jet fuel, the sales, distribution or use
14 of which in this state is subject to the tax imposed under article 8 of this
15 chapter.

16 6. Tangible personal property brought into this state by an individual
17 who was a nonresident at the time the property was purchased for storage, use
18 or consumption by the individual if the first actual use or consumption of
19 the property was outside this state, unless the property is used in
20 conducting a business in this state.

21 7. Purchases of implants used as growth promotants and injectable
22 medicines, not already exempt under paragraph 16 of this subsection, for
23 livestock and poultry owned by, or in possession of, persons who are engaged
24 in producing livestock, poultry, or livestock or poultry products, or who are
25 engaged in feeding livestock or poultry commercially. For the purposes of
26 this paragraph, "poultry" includes ratites.

27 8. Livestock, poultry, supplies, feed, salts, vitamins and other
28 additives for use or consumption in the businesses of farming, ranching and
29 feeding livestock or poultry, not including fertilizers, herbicides and
30 insecticides. For the purposes of this paragraph, "poultry" includes
31 ratites.

32 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
33 material for use in commercially producing agricultural, horticultural,
34 viticultural or floricultural crops in this state.

35 10. Tangible personal property not exceeding two hundred dollars in any
36 one month purchased by an individual at retail outside the continental limits
37 of the United States for the individual's own personal use and enjoyment.

38 11. Advertising supplements which are intended for sale with newspapers
39 published in this state and which have already been subjected to an excise
40 tax under the laws of another state in the United States which equals or
41 exceeds the tax imposed by this article.

42 12. Materials that are purchased by or for publicly funded libraries
43 including school district libraries, charter school libraries, community
44 college libraries, state university libraries or federal, state, county or
45 municipal libraries for use by the public as follows:

1 (a) Printed or photographic materials, beginning August 7, 1985.

2 (b) Electronic or digital media materials, beginning July 17, 1994.

3 13. Tangible personal property purchased by:

4 (a) A hospital organized and operated exclusively for charitable
5 purposes, no part of the net earnings of which inures to the benefit of any
6 private shareholder or individual.

7 (b) A hospital operated by this state or a political subdivision of
8 this state.

9 (c) A licensed nursing care institution or a licensed residential care
10 institution or a residential care facility operated in conjunction with a
11 licensed nursing care institution or a licensed kidney dialysis center, which
12 provides medical services, nursing services or health related services and is
13 not used or held for profit.

14 (d) A qualifying health care organization, as defined in section
15 42-5001, if the tangible personal property is used by the organization solely
16 to provide health and medical related educational and charitable services.

17 (e) A qualifying health care organization as defined in section
18 42-5001 if the organization is dedicated to providing educational,
19 therapeutic, rehabilitative and family medical education training for blind,
20 visually impaired and multihandicapped children from the time of birth to age
21 twenty-one.

22 (f) A nonprofit charitable organization that has qualified under
23 section 501(c)(3) of the United States internal revenue code and that engages
24 in and uses such property exclusively in programs for mentally or physically
25 handicapped persons if the programs are exclusively for training, job
26 placement, rehabilitation or testing.

27 (g) A person that is subject to tax under article 1 of this chapter by
28 reason of being engaged in business classified under the prime contracting
29 classification under section 42-5075, or a subcontractor working under the
30 control of a prime contractor, if the tangible personal property is any of
31 the following:

32 (i) Incorporated or fabricated by the contractor into a structure,
33 project, development or improvement in fulfillment of a contract.

34 (ii) Used in environmental response or remediation activities under
35 section 42-5075, subsection B, paragraph 6.

36 (iii) Incorporated or fabricated by the person into any lake facility
37 development in a commercial enhancement reuse district under conditions
38 prescribed for the deduction allowed by section 42-5075, subsection B,
39 paragraph 8.

40 (h) A nonprofit charitable organization that has qualified under
41 section 501(c)(3) of the internal revenue code if the property is purchased
42 from the parent or an affiliate organization that is located outside this
43 state.

44 (i) A qualifying community health center as defined in section
45 42-5001.

(j) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

(k) A person engaged in business under the transient lodging classification if the property is a personal hygiene item or articles used by human beings for food, drink or condiment, except alcoholic beverages, which are furnished without additional charge to and intended to be consumed by the transient during the transient's occupancy.

(l) For taxable periods beginning from and after June 30, 2001, a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that provides residential apartment housing for low income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy, if the tangible personal property is used by the organization solely to provide residential apartment housing for low income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy.

14. Commodities, as defined by title 7 United States Code section 2, that are consigned for resale in a warehouse in this state in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market regulated by the United States commodity futures trading commission.

15. Tangible personal property sold by:

(a) Any nonprofit organization organized and operated exclusively for charitable purposes and recognized by the United States internal revenue service under section 501(c)(3) of the internal revenue code.

(b) A nonprofit organization that is exempt from taxation under section 501(c)(3) or 501(c)(6) of the internal revenue code if the organization is associated with a major league baseball team or a national touring professional golfing association and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

(c) A nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

16. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.

17. Prosthetic appliances, as defined in section 23-501, prescribed or recommended by a person who is licensed, registered or otherwise professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse or optometrist.

18. Prescription eyeglasses and contact lenses.

19. Insulin, insulin syringes and glucose test strips.

20. Hearing aids as defined in section 36-1901.

21. Durable medical equipment which has a centers for medicare and medicaid services common procedure code, is designated reimbursable by medicare, is prescribed by a person who is licensed under title 32, chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily used to serve a medical purpose, is generally not useful to a person in the absence of illness or injury and is appropriate for use in the home.

22. Food, as provided in and subject to the conditions of article 3 of this chapter and section 42-5074.

23. Items purchased with United States department of agriculture food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code section 1786).

24. Food and drink provided without monetary charge by a taxpayer which is subject to section 42-5074 to its employees for their own consumption on the premises during the employees' hours of employment.

25. Tangible personal property that is used or consumed in a business subject to section 42-5074 for human food, drink or condiment, whether simple, mixed or compounded.

26. Food, drink or condiment and accessory tangible personal property that are acquired for use by or provided to a school district or charter school if they are to be either served or prepared and served to persons for consumption on the premises of a public school in a school district during school hours.

27. Lottery tickets or shares purchased pursuant to title 5, chapter 5, article 1.

28. Textbooks, sold by a bookstore, that are required by any state university or community college.

29. Magazines, other periodicals or other publications produced by this state to encourage tourist travel.

30. Paper machine clothing, such as forming fabrics and dryer felts, purchased by a paper manufacturer and directly used or consumed in paper manufacturing.

31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity purchased by a qualified environmental technology manufacturer, producer or processor as defined in section 41-1514.02 and directly used or consumed in the generation or provision of on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection. This paragraph shall apply for fifteen full consecutive calendar or fiscal years from the date the first paper manufacturing machine is placed in service. In the case of an environmental technology manufacturer, producer or processor who does not manufacture paper, the time period shall begin with the date the first manufacturing, processing or production equipment is placed in service.

1 32. Motor vehicles that are removed from inventory by a motor vehicle
2 dealer as defined in section 28-4301 and that are provided to:

3 (a) Charitable or educational institutions that are exempt from
4 taxation under section 501(c)(3) of the internal revenue code.

5 (b) Public educational institutions.

6 (c) State universities or affiliated organizations of a state
7 university if no part of the organization's net earnings inures to the
8 benefit of any private shareholder or individual.

9 33. Natural gas or liquefied petroleum gas used to propel a motor
10 vehicle.

11 34. Machinery, equipment, technology or related supplies that are only
12 useful to assist a person who is physically disabled as defined in section
13 46-191, has a developmental disability as defined in section 36-551 or has a
14 head injury as defined in section 41-3201 to be more independent and
15 functional.

16 35. Liquid, solid or gaseous chemicals used in manufacturing,
17 processing, fabricating, mining, refining, metallurgical operations, research
18 and development and, beginning on January 1, 1999, printing, if using or
19 consuming the chemicals, alone or as part of an integrated system of
20 chemicals, involves direct contact with the materials from which the product
21 is produced for the purpose of causing or permitting a chemical or physical
22 change to occur in the materials as part of the production process. This
23 paragraph does not include chemicals that are used or consumed in activities
24 such as packaging, storage or transportation but does not affect any
25 exemption for such chemicals that is otherwise provided by this section. For
26 the purposes of this paragraph, "printing" means a commercial printing
27 operation and includes job printing, engraving, embossing, copying and
28 bookbinding.

29 36. Food, drink and condiment purchased for consumption within the
30 premises of any prison, jail or other institution under the jurisdiction of
31 the state department of corrections, the department of public safety, the
32 department of juvenile corrections or a county sheriff.

33 37. A motor vehicle and any repair and replacement parts and tangible
34 personal property becoming a part of such motor vehicle sold to a motor
35 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
36 and who is engaged in the business of leasing or renting such property.

37 38. Tangible personal property which is or directly enters into and
38 becomes an ingredient or component part of cards used as prescription plan
39 identification cards.

40 39. Overhead materials or other tangible personal property that is used
41 in performing a contract between the United States government and a
42 manufacturer, modifier, assembler or repairer, including property used in
43 performing a subcontract with a government contractor who is a manufacturer,
44 modifier, assembler or repairer, to which title passes to the government

1 under the terms of the contract or subcontract. For the purposes of this
2 paragraph:

3 (a) "Overhead materials" means tangible personal property, the gross
4 proceeds of sales or gross income derived from which would otherwise be
5 included in the retail classification, and which are used or consumed in the
6 performance of a contract, the cost of which is charged to an overhead
7 expense account and allocated to various contracts based upon generally
8 accepted accounting principles and consistent with government contract
9 accounting standards.

10 (b) "Subcontract" means an agreement between a contractor and any
11 person who is not an employee of the contractor for furnishing of supplies or
12 services that, in whole or in part, are necessary to the performance of one
13 or more government contracts, or under which any portion of the contractor's
14 obligation under one or more government contracts is performed, undertaken or
15 assumed, and that includes provisions causing title to overhead materials or
16 other tangible personal property used in the performance of the subcontract
17 to pass to the government or that includes provisions incorporating such
18 title passing clauses in a government contract into the subcontract.

19 40. Through December 31, 1994, tangible personal property sold pursuant
20 to a personal property liquidation transaction, as defined in section
21 42-5061. From and after December 31, 1994, tangible personal property sold
22 pursuant to a personal property liquidation transaction, as defined in
23 section 42-5061, if the gross proceeds of the sales were included in the
24 measure of the tax imposed by article 1 of this chapter or if the personal
25 property liquidation was a casual activity or transaction.

26 41. Wireless telecommunications equipment that is held for sale or
27 transfer to a customer as an inducement to enter into or continue a contract
28 for telecommunications services that are taxable under section 42-5064.

29 42. Alternative fuel, as defined in section 1-215, purchased by a used
30 oil fuel burner who has received a permit to burn used oil or used oil fuel
31 under section 49-426 or 49-480.

32 43. Tangible personal property purchased by a commercial airline and
33 consisting of food, beverages and condiments and accessories used for serving
34 the food and beverages, if those items are to be provided without additional
35 charge to passengers for consumption in flight. For the purposes of this
36 paragraph, "commercial airline" means a person holding a federal certificate
37 of public convenience and necessity or foreign air carrier permit for air
38 transportation to transport persons, property or United States mail in
39 intrastate, interstate or foreign commerce.

40 44. Alternative fuel vehicles if the vehicle was manufactured as a
41 diesel fuel vehicle and converted to operate on alternative fuel and
42 equipment that is installed in a conventional diesel fuel motor vehicle to
43 convert the vehicle to operate on an alternative fuel, as defined in section
44 1-215.

1 45. Gas diverted from a pipeline, by a person engaged in the business
2 of:

3 (a) Operating a natural or artificial gas pipeline, and used or
4 consumed for the sole purpose of fueling compressor equipment that
5 pressurizes the pipeline.

6 (b) Converting natural gas into liquefied natural gas, and used or
7 consumed for the sole purpose of fueling compressor equipment used in the
8 conversion process.

9 46. Tangible personal property that is excluded, exempt or deductible
10 from transaction privilege tax pursuant to section 42-5063.

11 47. Tangible personal property purchased to be incorporated or
12 installed as part of environmental response or remediation activities under
13 section 42-5075, subsection B, paragraph 6.

14 48. Tangible personal property sold by a nonprofit organization that is
15 exempt from taxation under section 501(c)(6) of the internal revenue code if
16 the organization produces, organizes or promotes cultural or civic related
17 festivals or events and no part of the organization's net earnings inures to
18 the benefit of any private shareholder or individual.

19 49. Prepared food, drink or condiment donated by a restaurant as
20 classified in section 42-5074, subsection A to a nonprofit charitable
21 organization that has qualified under section 501(c)(3) of the internal
22 revenue code and that regularly serves meals to the needy and indigent on a
23 continuing basis at no cost.

24 50. Application services that are designed to assess or test student
25 learning or to promote curriculum design or enhancement purchased by or for
26 any school district, charter school, community college or state university.
27 For the purposes of this paragraph:

28 (a) "Application services" means software applications provided
29 remotely using hypertext transfer protocol or another network protocol.

30 (b) "Curriculum design or enhancement" means planning, implementing or
31 reporting on courses of study, lessons, assignments or other learning
32 activities.

33 B. In addition to the exemptions allowed by subsection A of this
34 section, the following categories of tangible personal property are also
35 exempt:

36 1. Machinery, or equipment, used directly in manufacturing,
37 processing, fabricating, job printing, refining or metallurgical operations.
38 The terms "manufacturing", "processing", "fabricating", "job printing",
39 "refining" and "metallurgical" as used in this paragraph refer to and include
40 those operations commonly understood within their ordinary meaning.
41 "Metallurgical operations" includes leaching, milling, precipitating,
42 smelting and refining.

43 2. Machinery, or equipment, used directly in the process of extracting
44 ores or minerals from the earth for commercial purposes, including equipment
45 required to prepare the materials for extraction and handling, loading or

1 transporting such extracted material to the surface. "Mining" includes
2 underground, surface and open pit operations for extracting ores and
3 minerals.

4 3. Tangible personal property sold to persons engaged in business
5 classified under the telecommunications classification under section 42-5064
6 and consisting of central office switching equipment, switchboards, private
7 branch exchange equipment, microwave radio equipment and carrier equipment
8 including optical fiber, coaxial cable and other transmission media which are
9 components of carrier systems.

10 4. Machinery, equipment or transmission lines used directly in
11 producing or transmitting electrical power, but not including distribution.
12 Transformers and control equipment used at transmission substation sites
13 constitute equipment used in producing or transmitting electrical power.

14 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
15 to be used as breeding or production stock, including sales of breedings or
16 ownership shares in such animals used for breeding or production.

17 6. Pipes or valves four inches in diameter or larger used to transport
18 oil, natural gas, artificial gas, water or coal slurry, including compressor
19 units, regulators, machinery and equipment, fittings, seals and any other
20 part that is used in operating the pipes or valves.

21 7. Aircraft, navigational and communication instruments and other
22 accessories and related equipment sold to:

23 (a) A person holding a federal certificate of public convenience and
24 necessity, a supplemental air carrier certificate under federal aviation
25 regulations (14 Code of Federal Regulations part 121) or a foreign air
26 carrier permit for air transportation for use as or in conjunction with or
27 becoming a part of aircraft to be used to transport persons, property or
28 United States mail in intrastate, interstate or foreign commerce.

29 (b) Any foreign government for use by such government outside of this
30 state, or sold to persons who are not residents of this state and who will
31 not use such property in this state other than in removing such property from
32 this state.

33 8. Machinery, tools, equipment and related supplies used or consumed
34 directly in repairing, remodeling or maintaining aircraft, aircraft engines
35 or aircraft component parts by or on behalf of a certificated or licensed
36 carrier of persons or property.

37 9. Rolling stock, rails, ties and signal control equipment used
38 directly to transport persons or property.

39 10. Machinery or equipment used directly to drill for oil or gas or
40 used directly in the process of extracting oil or gas from the earth for
41 commercial purposes.

42 11. Buses or other urban mass transit vehicles which are used directly
43 to transport persons or property for hire or pursuant to a governmentally
44 adopted and controlled urban mass transportation program and which are sold
45 to bus companies holding a federal certificate of convenience and necessity

1 or operated by any city, town or other governmental entity or by any person
2 contracting with such governmental entity as part of a governmentally adopted
3 and controlled program to provide urban mass transportation.

4 12. Groundwater measuring devices required under section 45-604.

5 13. New machinery and equipment consisting of tractors, tractor-drawn
6 implements, self-powered implements, machinery and equipment necessary for
7 extracting milk, and machinery and equipment necessary for cooling milk and
8 livestock, and drip irrigation lines not already exempt under paragraph 6 of
9 this subsection and that are used for commercial production of agricultural,
10 horticultural, viticultural and floricultural crops and products in this
11 state. For the purposes of this paragraph:

12 (a) "New machinery and equipment" means machinery or equipment which
13 has never been sold at retail except pursuant to leases or rentals which do
14 not total two years or more.

15 (b) "Self-powered implements" includes machinery and equipment that
16 are electric-powered.

17 14. Machinery or equipment used in research and development. For the
18 purposes of this paragraph, "research and development" means basic and
19 applied research in the sciences and engineering, and designing, developing
20 or testing prototypes, processes or new products, including research and
21 development of computer software that is embedded in or an integral part of
22 the prototype or new product or that is required for machinery or equipment
23 otherwise exempt under this section to function effectively. Research and
24 development do not include manufacturing quality control, routine consumer
25 product testing, market research, sales promotion, sales service, research in
26 social sciences or psychology, computer software research that is not
27 included in the definition of research and development, or other
28 nontechnological activities or technical services.

29 15. Machinery and equipment that are purchased by or on behalf of the
30 owners of a soundstage complex and primarily used for motion picture,
31 multimedia or interactive video production in the complex. This paragraph
32 applies only if the initial construction of the soundstage complex begins
33 after June 30, 1996 and before January 1, 2002 and the machinery and
34 equipment are purchased before the expiration of five years after the start
35 of initial construction. For the purposes of this paragraph:

36 (a) "Motion picture, multimedia or interactive video production"
37 includes products for theatrical and television release, educational
38 presentations, electronic retailing, documentaries, music videos, industrial
39 films, CD-ROM, video game production, commercial advertising and television
40 episode production and other genres that are introduced through developing
41 technology.

42 (b) "Soundstage complex" means a facility of multiple stages including
43 production offices, construction shops and related areas, prop and costume
44 shops, storage areas, parking for production vehicles and areas that are

1 leased to businesses that complement the production needs and orientation of
2 the overall facility.

3 16. Tangible personal property that is used by either of the following
4 to receive, store, convert, produce, generate, decode, encode, control or
5 transmit telecommunications information:

6 (a) Any direct broadcast satellite television or data transmission
7 service that operates pursuant to 47 Code of Federal Regulations part 25.

8 (b) Any satellite television or data transmission facility, if both of
9 the following conditions are met:

10 (i) Over two-thirds of the transmissions, measured in megabytes,
11 transmitted by the facility during the test period were transmitted to or on
12 behalf of one or more direct broadcast satellite television or data
13 transmission services that operate pursuant to 47 Code of Federal Regulations
14 part 25.

15 (ii) Over two-thirds of the transmissions, measured in megabytes,
16 transmitted by or on behalf of those direct broadcast television or data
17 transmission services during the test period were transmitted by the facility
18 to or on behalf of those services.

19 For the purposes of subdivision (b) of this paragraph, "test period" means
20 the three hundred sixty-five day period beginning on the later of the date on
21 which the tangible personal property is purchased or the date on which the
22 direct broadcast satellite television or data transmission service first
23 transmits information to its customers.

24 17. Clean rooms that are used for manufacturing, processing,
25 fabrication or research and development, as defined in paragraph 14 of this
26 subsection, of semiconductor products. For the purposes of this paragraph,
27 "clean room" means all property that comprises or creates an environment
28 where humidity, temperature, particulate matter and contamination are
29 precisely controlled within specified parameters, without regard to whether
30 the property is actually contained within that environment or whether any of
31 the property is affixed to or incorporated into real property. Clean room:

32 (a) Includes the integrated systems, fixtures, piping, movable
33 partitions, lighting and all property that is necessary or adapted to reduce
34 contamination or to control airflow, temperature, humidity, chemical purity
35 or other environmental conditions or manufacturing tolerances, as well as the
36 production machinery and equipment operating in conjunction with the clean
37 room environment.

38 (b) Does not include the building or other permanent, nonremovable
39 component of the building that houses the clean room environment.

40 18. Machinery and equipment that are used directly in the feeding of
41 poultry, the environmental control of housing for poultry, the movement of
42 eggs within a production and packaging facility or the sorting or cooling of
43 eggs. This exemption does not apply to vehicles used for transporting eggs.

44 19. Machinery or equipment, including related structural components,
45 that is employed in connection with manufacturing, processing, fabricating,

1 job printing, refining, mining, natural gas pipelines, metallurgical
2 operations, telecommunications, producing or transmitting electricity or
3 research and development and that is used directly to meet or exceed rules or
4 regulations adopted by the federal energy regulatory commission, the United
5 States environmental protection agency, the United States nuclear regulatory
6 commission, the Arizona department of environmental quality or a political
7 subdivision of this state to prevent, monitor, control or reduce land, water
8 or air pollution.

9 20. Machinery and equipment that are used in the commercial production
10 of livestock, livestock products or agricultural, horticultural, viticultural
11 or floricultural crops or products in this state and that are used directly
12 and primarily to prevent, monitor, control or reduce air, water or land
13 pollution.

14 21. Machinery or equipment that enables a television station to
15 originate and broadcast or to receive and broadcast digital television
16 signals and that was purchased to facilitate compliance with the
17 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
18 Code section 336) and the federal communications commission order issued
19 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
20 not exempt any of the following:

21 (a) Repair or replacement parts purchased for the machinery or
22 equipment described in this paragraph.

23 (b) Machinery or equipment purchased to replace machinery or equipment
24 for which an exemption was previously claimed and taken under this paragraph.

25 (c) Any machinery or equipment purchased after the television station
26 has ceased analog broadcasting, or purchased after November 1, 2009,
27 whichever occurs first.

28 22. Qualifying equipment that is purchased from and after June 30, 2004
29 through June 30, 2014 by a qualified business under section 41-1516 for
30 harvesting or the initial processing of qualifying forest products removed
31 from qualifying projects as defined in section 41-1516. To qualify for this
32 exemption, the qualified business must obtain and present its certification
33 from the department of commerce at the time of purchase.

34 23. Machinery, equipment and other tangible personal property used
35 directly in motion picture production by a motion picture production company.
36 To qualify for this exemption, at the time of purchase, the motion picture
37 production company must present to the retailer its certificate that is
38 issued pursuant to section 42-5009, subsection H and that establishes its
39 qualification for the exemption.

40 C. The exemptions provided by subsection B of this section do not
41 include:

42 1. Expendable materials. For the purposes of this paragraph,
43 expendable materials do not include any of the categories of tangible
44 personal property specified in subsection B of this section regardless of the
45 cost or useful life of that property.

1 2. Janitorial equipment and hand tools.

2 3. Office equipment, furniture and supplies.

3 4. Tangible personal property used in selling or distributing
4 activities, other than the telecommunications transmissions described in
5 subsection B, paragraph 16 of this section.

6 5. Motor vehicles required to be licensed by this state, except buses
7 or other urban mass transit vehicles specifically exempted pursuant to
8 subsection B, paragraph 11 of this section, without regard to the use of such
9 motor vehicles.

10 6. Shops, buildings, docks, depots and all other materials of whatever
11 kind or character not specifically included as exempt.

12 7. Motors and pumps used in drip irrigation systems.

13 D. The following shall be deducted in computing the purchase price of
14 electricity by a retail electric customer from a utility business:

15 1. Revenues received from sales of ancillary services, electric
16 distribution services, electric generation services, electric transmission
17 services and other services related to providing electricity to a retail
18 electric customer who is located outside this state for use outside this
19 state if the electricity is delivered to a point of sale outside this state.

20 2. Revenues received from providing electricity, including ancillary
21 services, electric distribution services, electric generation services,
22 electric transmission services and other services related to providing
23 electricity with respect to which the transaction privilege tax imposed under
24 section 42-5063 has been paid.

25 E. The tax levied by this article does not apply to:

26 1. The storage, use or consumption in Arizona of machinery, equipment,
27 materials or other tangible personal property if used directly and
28 predominantly to construct a qualified environmental technology
29 manufacturing, producing or processing facility, as described in section
30 41-1514.02. This paragraph applies for ten full consecutive calendar or
31 fiscal years after the start of initial construction.

32 2. The purchase of electricity by a qualified environmental technology
33 manufacturer, producer or processor as defined in section 41-1514.02 that is
34 used directly in environmental technology manufacturing, producing or
35 processing. This paragraph shall apply for fifteen full consecutive calendar
36 or fiscal years from the date the first paper manufacturing machine is placed
37 in service. In the case of an environmental technology manufacturer,
38 producer or processor who does not manufacture paper, the time period shall
39 begin with the date the first manufacturing, processing or production
40 equipment is placed in service.

41 3. The purchase of solar energy devices from a retailer that is
42 registered with the department as a solar energy retailer or a solar energy
43 contractor.

44 F. The following shall be deducted in computing the purchase price of
45 electricity by a retail electric customer from a utility business:

1 1. Fees charged by a municipally owned utility to persons constructing
2 residential, commercial or industrial developments or connecting residential,
3 commercial or industrial developments to a municipal utility system or
4 systems if the fees are segregated and used only for capital expansion,
5 system enlargement or debt service of the utility system or systems.

6 2. Reimbursement or contribution compensation to any person or persons
7 owning a utility system for property and equipment installed to provide
8 utility access to, on or across the land of an actual utility consumer if the
9 property and equipment become the property of the utility. This deduction
10 shall not exceed the value of such property and equipment.

11 G. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE
12 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES SHALL NOT BE EXEMPT FROM TAX
13 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2016:

14 (a) SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15,
15 16, 17, 19, 20, 21, 22, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37,
16 38, 39, 40, 41, 42, 43, 44, 45, 47, 48, 49 AND 50 OF THIS SECTION.

17 (b) SUBSECTION B, PARAGRAPHS 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14,
18 15, 16, 17, 18, 19, 20, 21, 22 AND 23 OF THIS SECTION.

19 ~~G.~~ H. For the purposes of subsection B of this section:

20 1. "Aircraft" includes:

21 (a) An airplane flight simulator that is approved by the federal
22 aviation administration for use as a phase II or higher flight simulator
23 under appendix H, 14 Code of Federal Regulations part 121.

24 (b) Tangible personal property that is permanently affixed or attached
25 as a component part of an aircraft that is owned or operated by a
26 certificated or licensed carrier of persons or property.

27 2. "Other accessories and related equipment" includes aircraft
28 accessories and equipment such as ground service equipment that physically
29 contact aircraft at some point during the overall carrier operation.

30 ~~H.~~ I. For the purposes of subsection D of this section, "ancillary
31 services", "electric distribution service", "electric generation service",
32 "electric transmission service" and "other services" have the same meanings
33 prescribed in section 42-5063.

34 Sec. 4. Section 43-223, Arizona Revised Statutes, is amended to read:

35 43-223. Requirements for new income tax credits established by
36 the legislature

37 Any new individual or corporate income tax credit that is enacted by
38 the legislature shall include in its enabling legislation:

39 1. A specific review year for the joint legislative income tax credit
40 review committee to review the credit. The specific review year shall be the
41 fifth full calendar year following the date the credit is enacted.

42 2. A SPECIFIC REPEAL DATE FOR THE TAX CREDIT. THE SPECIFIC REPEAL
43 DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH FULL CALENDAR YEAR
44 FOLLOWING THE DATE THE CREDIT IS ENACTED. THE REQUIRED REPEAL DOES NOT
45 AFFECT THE CARRY FORWARD OF ANY TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.

1 A TAXPAYER MAY CONTINUE TO APPLY SUCH AMOUNTS CARRIED FORWARD TO SUBSEQUENT
2 YEARS' INCOME TAX LIABILITIES AS PROVIDED BY THE CREDIT.

3 ~~2-~~ 3. A purpose clause that explains the rationale and objective of
4 the tax credit.

5 Sec. 5. Section 43-1071, Arizona Revised Statutes, is amended to read:

6 ~~43-1071.~~ Credit for income taxes paid to other states:
7 definitions

8 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, subject to the
9 following conditions, residents shall be allowed a credit against the taxes
10 imposed by this chapter for net income taxes imposed by and paid to another
11 state or country on income taxable under this chapter:

12 1. The credit shall be allowed only for taxes paid to the other state
13 or country on income that is derived from sources within that state or
14 country and that is taxable under its laws irrespective of the residence or
15 domicile of the recipient.

16 2. The credit shall not be allowed if the other state or country
17 allows residents of this state a credit against the taxes imposed by that
18 state or country for taxes paid or payable under this chapter.

19 3. The credit shall not exceed the proportion of the tax payable under
20 this chapter as the income subject to tax in the other state or country and
21 also taxable under this title bears to the taxpayer's entire income on which
22 the tax is imposed by this chapter.

23 B. If any taxes paid to another state or country for which a taxpayer
24 has been allowed a credit under this section are at any time credited or
25 refunded to the taxpayer:

26 1. The taxpayer shall immediately report that fact to the department.

27 2. A tax equal to the credit allowed for the taxes credited or
28 refunded by the other state or country is due and payable from the taxpayer
29 on notice and demand from the department.

30 3. Interest shall be added to and collected as a part of the tax at
31 the rate determined pursuant to section 42-1123 from the date the credit was
32 allowed under this chapter to the date of the notice and demand.

33 4. If the tax and interest are not paid within ten days from the date
34 of notice and demand, there shall be collected as a part of the tax interest
35 on the unpaid amount of tax and interest at the rate of twelve per cent a
36 year from the date of the notice and demand until the amount is paid.

37 C. The credit against the taxes imposed by this chapter for net income
38 taxes paid to another state or country shall not be allowed to any taxpayer
39 or any class of taxpayers if the allowances of the credit will result in any
40 invalid or illegal discrimination against another taxpayer or another class
41 of taxpayers.

42 D. For taxable years beginning on or after January 1, 2002 AND ENDING
43 BEFORE JANUARY 1, 2017 and subject to the following conditions, a resident of
44 this state, who is also considered to be a resident of another state under
45 the laws of the other state, is allowed a credit against the taxes imposed by

1 this title for net income taxes imposed by and paid to that state on income
2 taxable under this title as follows:

3 1. The credit is allowed only if the other state taxes the income to
4 the resident of this state and does not allow the taxpayer a credit against
5 taxes imposed by that state on that income for taxes paid or payable on that
6 income under this title.

7 2. The credit is allowed only for the proportion of the taxes paid to
8 the other state as the income taxable under this title and also subject to
9 tax in the other state bears to the entire income on which the taxes paid to
10 the other state are imposed.

11 3. The credit may not exceed the proportion of the tax payable under
12 this title as the income taxable under this title and also subject to tax in
13 the other state bears to the entire income taxable under this title.

14 4. For the purpose of the credit allowed under this subsection,
15 "income taxable under this title and also subject to tax in the other state"
16 means income that would be sourced to the other state if the other state were
17 imposing its income tax on the taxpayer as if the taxpayer was a nonresident
18 of that other state.

19 E. For the purposes of this section, net income taxes imposed by
20 another country include taxes that qualify for a credit under sections 901
21 and 903 of the internal revenue code and the regulations under those
22 sections.

23 F. For the purposes of this section:

24 1. "Entire income on which the other state's or country's tax is
25 imposed" means the other state's or country's income computed under the
26 equivalent of section 43-1094 but does not include any exemption allowable
27 under the equivalent of section 43-1023.

28 2. "Entire income on which the tax is imposed by this chapter" means
29 Arizona adjusted gross income as defined and computed under section 43-1001
30 but does not include any exemption allowed under section 43-1023.

31 3. "Income subject to tax in the other state or country and also
32 taxable under this title" means the portion of income that is included in
33 entire income on which the tax is imposed ~~under~~ BY this chapter that is also
34 included in the entire income on which the other state's or country's tax is
35 imposed. The taxpayer shall increase or reduce the portion of income that is
36 included in the entire income on which THE tax is imposed ~~under~~ BY this
37 chapter by any related additions under section 43-1021 and by any related
38 subtractions under section 43-1022. The taxpayer shall increase or reduce
39 the portion of income that is included in the entire income on which the
40 other state's or country's tax is imposed by any related additions and
41 subtractions under the other state's equivalent of sections 43-1021 and
42 43-1022, as applicable.

43 4. "Tax payable under this chapter" means the income tax imposed by
44 this state on the taxpayer's taxable income as defined under section 43-1001
45 minus all of the following:

- 1 (a) The reduction amount received under section 16-954, subsection A.
 2 (b) Any tax credit amount claimed under section 16-954, subsection B.
 3 (c) Any tax credit amount claimed for the taxable year under this
 4 article but not including the credit amount allowed under this section.

5 Sec. 6. Section 43-1072, Arizona Revised Statutes, is amended to read:
 6 43-1072. Earned credit for property taxes: residents sixty-five
 7 years of age or older; definitions

8 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, there shall be
 9 allowed to each resident a credit against the taxes imposed by this title for
 10 a taxable year for property taxes accrued or rent, or both, paid in that
 11 taxable year, in accordance with subsection B of this section, if all of the
 12 following apply:

13 1. Such resident attained the age of sixty-five years prior to or
 14 during the taxable year or such resident is a recipient of public monies
 15 under title 16 of the social security act, as amended.

16 2. Such person paid either property taxes or rent during the taxable
 17 year.

18 3. Such person either:

19 (a) Did not live with a spouse or any other persons and had an income
 20 from all sources in the taxable year of less than three thousand seven
 21 hundred fifty-one dollars.

22 (b) Lived with a spouse or one or more persons and the combined income
 23 from all sources in the taxable year of all persons residing in the residence
 24 was less than five thousand five hundred one dollars.

25 B. The credit allowed under this section is the amount of property
 26 taxes actually paid during the taxable year or the amount computed as
 27 follows, whichever is less:

28 1. For a person eligible under subsection A, paragraph 3, subdivision
 29 (a) of this section, according to the following table:

<u>Household Income</u>	<u>Tax Credit</u>
30 \$ 0-1,750	\$502
31 1,751-1,850	479
32 1,851-1,950	457
33 1,951-2,050	435
34 2,051-2,150	412
35 2,151-2,250	390
36 2,251-2,350	368
37 2,351-2,450	345
38 2,451-2,550	323
39 2,551-2,650	301
40 2,651-2,750	279
41 2,751-2,850	256
42 2,851-2,950	234
43 2,951-3,050	212
44 3,051-3,150	189

1	3,151-3,250	167
2	3,251-3,350	145
3	3,351-3,450	123
4	3,451-3,550	100
5	3,551-3,650	78
6	3,651-3,750	56

7 2. For a person eligible under subsection A, paragraph 3, subdivision
8 (b) of this section, according to the following table:

9	<u>Household Income</u>	<u>Tax Credit</u>
10	\$ 0-2,500	\$502
11	2,501-2,650	479
12	2,651-2,800	457
13	2,801-2,950	435
14	2,951-3,100	412
15	3,101-3,250	390
16	3,251-3,400	368
17	3,401-3,550	345
18	3,551-3,700	323
19	3,701-3,850	301
20	3,851-4,000	279
21	4,001-4,150	256
22	4,151-4,300	234
23	4,301-4,450	212
24	4,451-4,600	189
25	4,601-4,750	167
26	4,751-4,900	145
27	4,901-5,050	123
28	5,051-5,200	100
29	5,201-5,350	78
30	5,351-5,500	56

31 C. The owner or lessor of property leased or rented solely for
32 residential purposes, on request, shall furnish to the tenants of the
33 property a written statement of the percentage of rental payments that are
34 attributable to property tax for purposes of this section.

35 D. Disposition of the claimant's allowable credit shall be as provided
36 below:

37 1. If the allowable amount of such claim exceeds the income taxes
38 otherwise due on the claimant's income, the amount of the claim not used as
39 an offset against income taxes, after audit by the department, shall be paid
40 in the same manner as a refund granted under chapter 6, article 1 of this
41 title. Refunds made pursuant to this paragraph are subject to setoff under
42 section 42-1122.

43 2. The amount of any claim otherwise payable for credit for property
44 taxes accrued or rent may be applied by the department against any liability
45 outstanding on the books of the department against the claimant or against

1 the claimant's spouse who was a member of the claimant's household in the
2 taxable year.

3 E. The department shall make available suitable forms with
4 instructions for claimants. Claimants who certify on the prescribed form
5 that they have no income tax liability for the taxable year shall not be
6 required to file an individual income tax return. The claim shall be in such
7 form as the department may prescribe but shall require the social security
8 numbers of persons who were allowed to claim as dependents for the taxes
9 imposed by this title claimants filing pursuant to this section. The
10 claimant shall also submit a copy of the claimant's property tax statement or
11 a suitable representation of the statement as prescribed by the department.
12 The department shall audit a sufficient number of claims to enforce the
13 provisions of this chapter.

14 F. No claim with respect to property taxes or with respect to rent
15 shall be allowed or paid unless the claim is actually filed on or before
16 April 15 for the next preceding calendar year. The department may, upon
17 request, grant for a period of not to exceed six months an extension of time
18 for filing the claim.

19 G. Only one claimant per household per year shall be entitled to a tax
20 credit pursuant to this section.

21 H. In this section, unless the context otherwise requires:

22 1. "Claimant" means a person who has filed a claim for credit under
23 this section and was a resident of this state during the entire taxable year.
24 In the case of a claim for rent, the claimant shall have rented property in
25 this state during the entire taxable year except as otherwise provided by
26 this section. If two individuals of a household are able to meet the
27 qualifications for a claimant, they may determine between them as to whom the
28 claimant shall be. If they are unable to agree, the matter shall be referred
29 to the department and its decision shall be final. If a homestead is
30 occupied by two or more individuals and more than one individual is able to
31 qualify as a claimant, and some or all of the qualified individuals are not
32 related, the individuals may determine among them as to whom the claimant
33 shall be. If they are unable to agree, the matter shall be referred to the
34 department, and its decision shall be final.

35 2. "Gross rent" means rental paid for the right of occupancy of a
36 homestead or space rental paid to a landlord for the parking of a mobile
37 home. If the department is satisfied that the gross rent charge was paid
38 solely for purposes of receiving a credit pursuant to this section, it shall
39 not allow a claim.

40 3. "Homestead" means the principal dwelling, whether owned or rented
41 by the claimant. "Homestead" may also include a mobile home and the land
42 upon which it is located.

43 4. "Household" means the household of the claimant and such other
44 persons as resided with the claimant in the claimant's homestead during the
45 taxable year.

5. "Household income" means all income received by all persons of a household in a taxable year while members of the household.

6. "Income" means the sum of the following:

- (a) Adjusted gross income as defined by the department.
- (b) The amount of capital gains excluded from adjusted gross income.
- (c) Nontaxable strike benefits.
- (d) Nontaxable interest received from the federal government or any of its instrumentalities.
- (e) Payments received from a retirement program paid by this state or any of its political subdivisions.
- (f) Payments received from a retirement program paid by the United States through any of its agencies, instrumentalities or programs, except as provided in subsection I of this section.
- (g) The gross amount of any pension or annuity not otherwise exempted except as provided in subsection I of this section.

7. "Property taxes" means property taxes levied on a claimant's homestead in this state in any taxable year. For purposes of this paragraph, property taxes are "levied" when the tax roll is delivered to the county treasurer for collection. If a claimant and the claimant's household own their homestead part of the taxable year and rent it or different homesteads for the rest of the same year, provided property taxes were levied on the homestead which was owned by the claimant and the claimant's household, such claimant shall be eligible for a credit pursuant to this section.

I. Income as defined in subsection H, paragraph 6, subdivisions (f) and (g) of this section shall not include monies received from cash public assistance and relief, relief granted under the provisions of this section, railroad retirement benefits, payments received under the federal social security act (49 Stat. 620), payments received under Arizona state unemployment insurance laws, payments received from veterans' disability pensions, payments received as workers' compensation, the gross amount of "loss of time" insurance, and gifts from nongovernmental sources or surplus foods or other relief in kind supplied by a governmental agency.

Sec. 7. Section 43-1072.01, Arizona Revised Statutes, is amended to read:

43-1072.01. Credit for increased excise taxes paid

A. Subject to the conditions prescribed by this section and if approved by the qualified electors voting at a statewide general election, for tax years beginning from and after December 31, 2000 AND ENDING BEFORE JANUARY 1, 2017 a credit is allowed against the taxes imposed by this chapter for a taxable year for a taxpayer who is not claimed as a dependent by any other taxpayer and whose federal adjusted gross income is:

- 1. Twenty-five thousand dollars or less for a married couple or a single person who is a head of a household.
- 2. Twelve thousand five hundred dollars or less for a single person or a married person filing separately.

B. The credit is considered to be in mitigation of increased tax rates pursuant to section 42-5010, subsection G and section 42-5155, subsection D.

C. The amount of the credit shall not exceed twenty-five dollars for each person who is a resident of this state and for whom a personal or dependent exemption is allowed with respect to the taxpayer pursuant to section 43-1023, subsection B, paragraph 1 and section 43-1043, but not more than one hundred dollars for all persons in the taxpayer's household, as defined in section 43-1072.

D. If the allowable amount of the credit exceeds the income taxes otherwise due on the claimant's income, the amount of the claim not used as an offset against income taxes shall be paid in the same manner as a refund granted under section 42-1118. Refunds made pursuant to this subsection are subject to setoff under section 42-1122.

E. The department shall make available suitable forms with instructions for claimants. Claimants who certify on the prescribed form that they have no income tax liability for the taxable year and who do not meet the filing requirements of section 43-301 are not required to file an individual income tax return. The claim shall be in a form prescribed by the department.

F. For taxable years beginning from and after December 31, 2002, a person who is sentenced for at least sixty days of the taxable year to the custody of the federal bureau of prisons, the state department of corrections or a county jail is not eligible to claim a credit pursuant to this section.

Sec. 8. Section 43-1073, Arizona Revised Statutes, is amended to read:

43-1073. Family income tax credit

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017 AND subject to the conditions prescribed by this section, a credit is allowed against the taxes imposed by this chapter for a taxable year for taxpayers whose Arizona adjusted gross income, plus the amount subtracted for exemptions under section 43-1023, is:

1. Twenty thousand dollars or less in the case of a married couple filing a joint return with no more than one dependent or a single person who is a head of a household with no more than one dependent.

2. Twenty-three thousand six hundred dollars or less in the case of a married couple filing a joint return with two dependents.

3. Twenty-seven thousand three hundred dollars or less in the case of a married couple filing a joint return with three dependents.

4. Thirty-one thousand dollars or less in the case of a married couple filing a joint return with four or more dependents.

5. Twenty thousand one hundred thirty-five dollars or less in the case of a single person who is a head of a household with two dependents.

6. Twenty-three thousand eight hundred dollars or less in the case of a single person who is a head of a household with three dependents.

7. Twenty-five thousand two hundred dollars or less in the case of a single person who is a head of a household with four dependents.

1 8. Twenty-six thousand five hundred seventy-five dollars or less in
2 the case of a single person who is a head of a household with five or more
3 dependents.

4 9. Ten thousand dollars or less in the case of a single person or a
5 married person filing separately.

6 B. The amount of the credit is equal to forty dollars for each person
7 who is a resident of this state and for whom a personal or dependent
8 exemption is allowed with respect to the taxpayer pursuant to section 43-1043
9 and [SECTION 43-1023](#), subsection B, paragraph 1, but not to exceed:

10 1. Two hundred forty dollars in the case of a married couple filing a
11 joint return or a single person who is a head of a household.

12 2. One hundred twenty dollars in the case of a single person or a
13 married couple filing separately.

14 3. For any taxpayer, the amount of taxes due under this chapter for
15 the taxable year.

16 Sec. 9. Section 43-1074.01, Arizona Revised Statutes, as amended by
17 Laws 2001, chapter 115, section 19, is amended to read:

18 [43-1074.01. Credit for increased research activities](#)

19 A. [FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017](#), a credit is
20 allowed against the taxes imposed by this title in an amount determined
21 pursuant to section 41 of the internal revenue code, except that:

22 1. The amount of the credit is based on the excess, if any, of the
23 qualified research expenses for the taxable year over the base amount as
24 defined in section 41(c) of the internal revenue code and is computed as
25 follows:

26 (a) If the excess is two million five hundred thousand dollars or
27 less, the credit is equal to twenty per cent of that amount.

28 (b) If the excess is over two million five hundred thousand dollars,
29 the credit is equal to five hundred thousand dollars plus eleven per cent of
30 any amount exceeding two million five hundred thousand dollars, except that:

31 (i) For taxable years beginning from and after December 31, 2000
32 through December 31, 2001, the credit shall not exceed one million five
33 hundred thousand dollars.

34 (ii) For taxable years beginning from and after December 31, 2001
35 through December 31, 2002, the credit shall not exceed two million five
36 hundred thousand dollars.

37 2. Qualified research includes only research conducted in this state,
38 including research conducted at a university in this state and paid for by
39 the taxpayer.

40 3. If two or more taxpayers, including partners in a partnership and
41 shareholders of an S corporation, as defined in section 1361 of the internal
42 revenue code, share in the eligible expenses, each taxpayer is eligible to
43 receive a proportionate share of the credit.

44 4. The credit under this section applies only to expenses incurred
45 from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

B. If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes may be carried forward to the next fifteen consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2000 through December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title or five hundred thousand dollars, whichever is less, minus the credit under this section for the current taxable year's qualified research expenses. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses.

Sec. 10. Section 43-1074.01, Arizona Revised Statutes, as amended by Laws 2008, chapter 290, section 2, is amended to read:

43-1074.01. Credit for increased research activities

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018**, a credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

1. The amount of the credit is based on the excess, if any, of the qualified research expenses for the taxable year over the base amount as defined in section 41(c) of the internal revenue code and is computed as follows:

(a) If the excess is two million five hundred thousand dollars or less, the credit is equal to twenty-four per cent of that amount.

(b) If the excess is over two million five hundred thousand dollars, the credit is equal to six hundred thousand dollars plus fifteen per cent of any amount exceeding two million five hundred thousand dollars, except that:

(i) For taxable years beginning from and after December 31, 2000 through December 31, 2001, the credit shall not exceed one million five hundred thousand dollars.

(ii) For taxable years beginning from and after December 31, 2001 through December 31, 2002, the credit shall not exceed two million five hundred thousand dollars.

2. Qualified research includes only research conducted in this state, including research conducted at a university in this state and paid for by the taxpayer.

3. If two or more taxpayers, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

B. If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes may be carried forward to the next fifteen consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2000 through December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title or five hundred thousand dollars, whichever is less, minus the credit under this section for the current taxable year's qualified research expenses. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses.

Sec. 11. Section 43-1074.01, Arizona Revised Statutes, as added by Laws 2008, chapter 290, section 4, is amended to read:

43-1074.01. Credit for increased research activities

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2026**, a credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

1. The amount of the credit is based on the excess, if any, of the qualified research expenses for the taxable year over the base amount as defined in section 41(c) of the internal revenue code and is computed as follows:

(a) If the excess is two million five hundred thousand dollars or less, the credit is equal to twenty per cent of that amount.

(b) If the excess is over two million five hundred thousand dollars, the credit is equal to five hundred thousand dollars plus eleven per cent of any amount exceeding two million five hundred thousand dollars, except that:

(i) For taxable years beginning from and after December 31, 2000 through December 31, 2001, the credit shall not exceed one million five hundred thousand dollars.

(ii) For taxable years beginning from and after December 31, 2001 through December 31, 2002, the credit shall not exceed two million five hundred thousand dollars.

2. Qualified research includes only research conducted in this state, including research conducted at a university in this state and paid for by the taxpayer.

3. If two or more taxpayers, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

B. If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes may be carried forward to the next fifteen consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2000 through December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title or five hundred thousand dollars, whichever is less, minus the credit under this section for the current taxable year's qualified research expenses. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses.

Sec. 12. Section 43-1075.01, Arizona Revised Statutes, is amended to read:

43-1075.01. Credit for motion picture infrastructure projects; definition

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for investments in motion picture infrastructure projects in this state as provided by section 41-1517.01. The amount of the credit is fifteen per cent of the total base investment in the project during the taxable year as approved and reported by the department of commerce pursuant to section 41-1517.01, subsection F. The taxpayer may apply the credit against income taxes for the taxable year in which the motion picture infrastructure project is completed as provided by section 41-1517.01, subsection F.

B. The department shall not allow:

1. Tax credits for any taxable year under this section and section 43-1163.01 that would violate the aggregate limits prescribed by section 41-1517.01, subsection C.

2. A tax credit under this section to a taxpayer who has a delinquent tax balance owing to the department under this title or title 42.

C. An applicant, at its expense, may voluntarily enter into a limited managed audit agreement pursuant to title 42, chapter 2, article 7 that includes an audit of its base investment and other requirements prescribed by section 41-1517.01 and by this section to confirm the amount of any credit under this section. The request to enter into the audit must be made after the applicant receives approval for the credit pursuant to section 41-1517.01, subsection F. The audit must be conducted by the applicant's authorized representative, as defined in section 42-2301, who is an independent certified public accountant licensed in this state. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the taxpayer or its

1 affiliates. If the director accepts the findings of the audit and issues a
2 notice of determination pursuant to section 42-2303 and the taxpayer timely
3 files its income tax return with the appropriate credit claim forms, the
4 credit amount accepted is not subject to recapture, disallowance, reduction
5 or denial with respect to either the taxpayer or any subsequent transferee of
6 the credit, and subsection F, paragraph 4 of this section does not apply.
7 The director's notice of determination shall include a written certificate to
8 the taxpayer stating the amount of the credit and that the credit is not
9 subject to recapture from a transferee. This subsection does not prevent the
10 recapture of a credit if the taxpayer failed to disclose material information
11 during the audit or falsified its books or records or otherwise engaged in an
12 action that prevented an accurate audit.

13 D. Co-owners of a business, including partners in a partnership,
14 members of a limited liability company and shareholders of an S corporation
15 as defined in section 1361 of the internal revenue code, may allocate the
16 credit allowed under this section among the co-owners on any basis without
17 regard to their proportional ownership interest. The total of the credits
18 allowed all such owners may not exceed the amount that would have been
19 allowed for a sole owner of the company.

20 E. If the allowable tax credit for a taxpayer exceeds the taxes
21 otherwise due under this title on the claimant's income, or if there are no
22 taxes due under this title, the taxpayer may carry the amount of the claim
23 not used to offset the taxes under this title forward for not more than five
24 consecutive taxable years' income tax liability.

25 F. All or part of any unclaimed amount of credit under this section
26 may be sold or otherwise transferred under the following conditions:

27 1. A single sale or transfer may involve one or more transferees, and
28 a transferee may in turn resell or transfer the credit subject to the same
29 conditions of this subsection.

30 2. Both the transferor and transferee must submit a written notice of
31 the transfer to the department within thirty days after the sale or transfer.
32 The transferee's notice shall include a processing fee equal to one per cent
33 of the transferee's tax credit balance or two hundred dollars, whichever is
34 less. The notice shall include:

- 35 (a) The name of the taxpayer.
- 36 (b) The date of the transfer.
- 37 (c) The amount of the transfer.
- 38 (d) The transferor's tax credit balance before the transfer and the
39 remaining balance after the transfer.
- 40 (e) All tax identification numbers for both transferor and transferee.
- 41 (f) Any other information required by rule.

42 3. A sale or transfer of the credit does not extend the time in which
43 the credit can be used. The carryforward period of time under subsection E
44 of this section for a credit that is sold or transferred begins on the date
45 the credit was originally earned.

1 4. Except as provided by subsection C of this section, if a transferor
2 was not qualified or was disqualified from using the credit at the time of
3 the transfer, the department shall either disallow the credit claimed by a
4 transferee or recapture the credit from the transferee through any authorized
5 collection method. The transferee's recourse is against the transferor.

6 5. In the case of any failure to comply with this subsection, the
7 department shall disallow the tax credit until the taxpayer is in full
8 compliance.

9 G. The department of revenue shall maintain annual data on the total
10 amount of monies credited pursuant to this section, and shall provide that
11 data to the department of commerce on request.

12 H. The department of revenue, with the cooperation of the department
13 of commerce, shall adopt rules and publish and prescribe forms and procedures
14 as necessary to effectuate the purposes of this section.

15 I. A taxpayer who claims a credit for motion picture infrastructure
16 projects under this section shall not claim a credit under section 43-1075
17 for the same costs.

18 J. The credit allowed by this section is in lieu of any allowance for
19 state tax purposes of a deduction of those expenses allowed by the internal
20 revenue code.

21 K. For the purposes of this section, "motion picture infrastructure
22 project" has the same meaning prescribed in section 41-1517.01.

23 Sec. 13. Section 43-1077, Arizona Revised Statutes, is amended to
24 read:

25 43-1077. Credit for employment by qualified defense contractor

26 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
27 allowed against the taxes imposed by this title for:

28 1. Net increases in employment under United States department of
29 defense contracts during the taxable year, as computed under subsection D of
30 this section, by a qualified defense contractor who is certified by the
31 department of commerce under section 41-1508.

32 2. Net increases in private commercial employment during the taxable
33 year, as computed under subsection E of this section, by a qualified defense
34 contractor who is certified by the department of commerce under section
35 41-1508 due to full-time equivalent employee positions transferred during the
36 taxable year by the taxpayer from exclusively defense related activities to
37 employment by the taxpayer in exclusively private commercial activities.

38 B. The amount of the credit is a dollar amount allowed for each
39 full-time equivalent employee position created, determined as follows:

40 1st year	\$2,500
41 2nd year	\$2,000
42 3rd year	\$1,500
43 4th year	\$1,000
44 5th year	\$ 500

1 C. If the allowable tax credit exceeds the taxes otherwise due under
2 this title on the claimant's income, or if there are no taxes due under this
3 title, the taxpayer may carry the amount of the claim not used to offset the
4 taxes under this title forward until taxable years beginning from and after
5 December 31, 2011 as a credit against subsequent years' income tax liability,
6 regardless of continuing certification as a qualified defense contractor.

7 D. The net increase in employment under defense related contracts
8 shall be determined as follows:

9 1. Establish an employment baseline for the taxpayer based on a
10 multiyear forecast of employment on United States department of defense
11 contracts that was submitted to the department of defense before June 1,
12 1992. The annual average employment forecast for the first year the taxpayer
13 qualified is the baseline. If the taxpayer did not make such a forecast
14 before June 1, 1992, the baseline is the average annual employment as
15 reported to the department of economic security during the preceding taxable
16 year. If a taxpayer qualifies in the same year it relocates into this state,
17 the taxpayer's baseline is zero.

18 2. For the first year of the credit, the taxpayer's net increase in
19 average employment is the increase in employment reported to the department
20 of economic security for the taxable year over the employment baseline.

21 3. For each succeeding year of the credit, the taxpayer's net increase
22 in average employment is the increase in employment reported to the
23 department of economic security for the taxable year over the preceding
24 taxable year's average employment.

25 E. In computing the amount of credit allowed under subsection A,
26 paragraph 2 of this section, the taxpayer shall:

27 1. Prorate employment during the taxable year according to the date of
28 transfer from defense to private commercial activities or the date of
29 transfer from private commercial activities to defense.

30 2. Compute and subtract an amount pursuant to subsection B of this
31 section for full-time equivalent employee positions that were transferred
32 during the taxable year by the taxpayer from exclusively private commercial
33 activities to exclusively defense related activities.

34 F. The taxpayer shall account for qualifying full-time equivalent
35 employee positions on a first-in first-out basis. If a decrease in
36 qualifying employment occurs, the taxpayer shall subtract the decrease from
37 the earliest qualifying positions.

38 G. A credit is not allowed under both subsection A, paragraphs 1 and 2
39 of this section with respect to the same employee position. A full-time
40 equivalent employee position may be considered for purposes of computing the
41 credit under either subsection A, paragraph 1 or 2 of this section, but not
42 both.

43 H. A credit is not allowed under this section with respect to
44 employment that was transferred from an outside contractor in this state to

1 in-house employment by the taxpayer solely for purposes of qualifying for the
2 credit.

3 I. A taxpayer who claims a credit under section 43-1074 or 43-1079 may
4 not claim a credit under this section with respect to the same employees.

5 J. Co-owners of a business, including partners in a partnership and
6 shareholders of an S corporation, as defined in section 1361 of the internal
7 revenue code, may each claim only the pro rata share of the credit allowed
8 under this section based on the ownership interest. The total of the credits
9 allowed all such owners may not exceed the amount that would have been
10 allowed for a sole owner of the business.

11 Sec. 14. Section 43-1078, Arizona Revised Statutes, is amended to
12 read:

13 43-1078. Credit for property taxes paid by qualified defense
14 contractor

15 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
16 allowed against the taxes imposed by this title equal to a portion of the
17 amount paid as taxes during the taxable year by a qualified defense
18 contractor that is certified by the department of commerce under section
19 41-1508, on property in this state that is classified as class one,
20 paragraphs 12 and 13 pursuant to section 42-12001.

21 B. The amount of the credit is determined as follows:

22 1. Multiply the amount paid as taxes on property classified as class
23 one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during
24 the taxable year by a percentage based on net new defense related employment,
25 determined by subtracting the employment baseline determined pursuant to
26 section 43-1077, subsection D, paragraph 1, from average annual employment as
27 reported to the department of economic security for the taxable year, as
28 follows:

<u>New employment</u>	<u>Credit percentage</u>
More than 900	40%
601 - 900	30%
301 - 600	20%
1 - 300	10%

34 2. Multiply the amount determined under paragraph 1 of this subsection
35 by a percentage determined by dividing the taxpayer's total gross income from
36 United States department of defense contracts apportioned to this state by
37 the taxpayer's total gross income from all sources apportioned to this state.

38 C. If the allowable tax credit exceeds the taxes otherwise due under
39 this title on the claimant's income, or if there are no taxes due under this
40 title, the taxpayer may carry the amount of the claim not used to offset the
41 taxes under this title forward until taxable years beginning from and after
42 December 31, 2011 as a credit against subsequent years' income tax liability,
43 regardless of continuing certification as a qualified defense contractor.

44 D. The credit allowed by this section is in lieu of a deduction for
45 property taxes under section 43-1042 with respect to the same taxes paid.

1 E. Co-owners of a business, including partners in a partnership and
 2 shareholders of an S corporation, as defined in section 1361 of the internal
 3 revenue code, may each claim only the pro rata share of the credit allowed
 4 under this section based on the ownership interest. The total of the credits
 5 allowed all such owners may not exceed the amount that would have been
 6 allowed for a sole owner of the business.

7 Sec. 15. Section 43-1079, Arizona Revised Statutes, is amended to
 8 read:

9 43-1079. Credit for increased employment in military reuse
 10 zones; definition

11 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
 12 allowed against the taxes imposed by this title for net increases in
 13 employment by the taxpayer of full-time employees working in a military reuse
 14 zone, established under title 41, chapter 10, article 3, and who are
 15 primarily engaged in providing aviation or aerospace services or in
 16 manufacturing, assembling or fabricating aviation or aerospace products. The
 17 amount of the credit is a dollar amount allowed for each new employee,
 18 determined as follows:

19 1. With respect to each employee other than a dislocated military base
 20 employee:

21 1st year of employment	\$ 500
22 2nd year of employment	\$1,000
23 3rd year of employment	\$1,500
24 4th year of employment	\$2,000
25 5th year of employment	\$2,500

26 2. With respect to each dislocated military base employee:

27 1st year of employment	\$1,000
28 2nd year of employment	\$1,500
29 3rd year of employment	\$2,000
30 4th year of employment	\$2,500
31 5th year of employment	\$3,000

32 B. If the allowable tax credit exceeds the taxes otherwise due under
 33 this title on the claimant's income, or if there are no taxes due under this
 34 title, the amount of the claim not used to offset the taxes under this title
 35 may be carried forward as a credit against subsequent years' income tax
 36 liability for the period, not to exceed five taxable years, if the business
 37 remains in the military reuse zone.

38 C. The net increase in the number of employees for purposes of this
 39 section shall be determined by comparing the taxpayer's average employment in
 40 the military reuse zone during the taxable year with the taxpayer's previous
 41 year's fourth quarter employment in the zone, based on the taxpayer's report
 42 to the department of economic security for unemployment insurance purposes
 43 but considering only employment in the zone.

44 D. Co-owners of a business, including partners in a partnership and
 45 shareholders of an S corporation, as defined in section 1361 of the internal

revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

E. A credit is not allowed under this section with respect to an employee whose place of employment is relocated by the taxpayer from a location in this state to the military reuse zone, unless the employee is engaged in aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products and the taxpayer maintains at least the same number of employees in this state but outside the zone.

F. A taxpayer who claims a credit under section 43-1074 or 43-1077 may not claim a credit under this section with respect to the same employees.

G. For the purposes of this section, "dislocated military base employee" means a civilian who previously had permanent full-time civilian employment on the military facility as of the date the closure of the facility was finally determined under federal law, as certified by the department of commerce.

Sec. 16. Section 43-1079.01, Arizona Revised Statutes, is amended to read:

43-1079.01. Credit for employing national guard members

A. For taxable years beginning from and after December 31, 2005 AND ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for a taxpayer whose employee is a member of the Arizona national guard if the employee is placed on active duty. The amount of the credit is one thousand dollars for each employee who is placed on active duty by the Arizona national guard.

B. To qualify for the credit:

1. The employee must be a member of the Arizona national guard who is employed by the taxpayer in a full-time equivalent position when the employee is placed on active duty.

2. Each member of the Arizona national guard who is employed must have served during the taxable year on active duty for training that exceeds the required annual training period, including any activation for federal or state contingencies or emergencies.

C. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset taxes under this title may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

D. The credit under this section may be claimed only once by the taxpayer in any taxable year with respect to each employee who is placed on active duty by the Arizona national guard, but may be claimed again for that employee in a subsequent taxable year if that employee remains on active duty or is placed again on active duty in a subsequent taxable year.

1 E. Co-owners of a business, including partners in a partnership and
2 shareholders of an S corporation as defined in section 1361 of the internal
3 revenue code, may each claim only the pro rata share of the credit allowed
4 under this section based on the ownership interest. The total of the credits
5 allowed all such owners may not exceed the amount that would have been
6 allowed a sole owner.

7 Sec. 17. Section 43-1080, Arizona Revised Statutes, is amended to
8 read:

9 43-1080. Credit for construction costs of qualified
10 environmental technology facility

11 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
12 allowed against the taxes imposed by this title for expenses incurred in
13 constructing a qualified environmental technology manufacturing, producing or
14 processing facility as described in section 41-1514.02. The amount of the
15 credit is equal to ten per cent of the amount spent during the taxable year
16 to construct the facility, including land acquisition, improvements, building
17 improvements, machinery and equipment, but not exceeding seventy-five per
18 cent of the tax liability under this title for the taxable year determined
19 without applying the credit.

20 B. Amounts qualifying for the credit under this section must be
21 includible in the taxpayer's adjusted basis for the facility. The adjusted
22 basis of any asset with respect to which the taxpayer has claimed a credit
23 shall be reduced by the amount of credit claimed with respect to that
24 asset. This credit does not affect the deductibility for depreciation or
25 amortization of the remaining adjusted basis of the asset.

26 C. A taxpayer may claim a credit under this section with respect to
27 new qualifying construction within ten years after the start of the
28 facility's initial construction, but a credit is not allowed under this
29 section for any amount spent more than ten years after the start of the
30 facility's initial construction.

31 D. A taxpayer qualifies for the credit under this section if the
32 taxpayer owns the facility or leases the facility or any component of the
33 facility for a term of five or more years.

34 E. If the allowable tax credit exceeds seventy-five per cent of the
35 taxes otherwise due under this title on the claimant's income, or if there
36 are no taxes due under this title, the amount of the claim not used to offset
37 taxes under this title may be carried forward for not more than fifteen
38 taxable years as a credit against subsequent years' income tax liability.

39 F. Co-owners of a business, including partners in a partnership and
40 shareholders of an S corporation, as defined in section 1361 of the internal
41 revenue code, may each claim only the pro rata share of the credit allowed
42 under this section based on the ownership interest. The total of the credits
43 allowed all such owners may not exceed the amount that would have been
44 allowed for a sole owner of the business.

G. If either of the following circumstances occurs with respect to a qualified environmental technology manufacturing, producing or processing facility, the tax imposed by this title for the taxable year in which the circumstance occurs shall be increased by the full amount of all credits previously allowed under this section with respect to that facility:

1. The taxpayer abandons construction before the facility is placed in service.

2. Before the facility is placed in service, the taxpayer changes plans in such a manner as to no longer qualify as an environmental technology manufacturing, producing or processing facility under section 41-1514.02.

H. If, within five years after being placed in service, an operating environmental technology manufacturing, producing or processing facility with respect to which a credit has been allowed under this section ceases for any reason to operate as an environmental technology manufacturing, producing or processing facility as described in section 41-1514.02, the tax imposed by this title for the taxable year shall be increased by an amount determined by multiplying the full amount of all credits previously allowed under this section with respect to that facility by a percentage determined as follows:

1. If the facility was placed in service less than one year before ceasing to operate as an environmental technology manufacturing, producing or processing facility, one hundred per cent.

2. If the facility was placed in service at least one year but not more than two years before ceasing to operate as an environmental technology manufacturing, producing or processing facility, eighty per cent.

3. If the facility was placed in service at least two years but less than three years before ceasing to operate as an environmental technology manufacturing, producing or processing facility, sixty per cent.

4. If the facility was placed in service at least three years but less than four years before ceasing to operate as an environmental technology manufacturing, producing or processing facility, forty per cent.

5. If the facility was placed in service at least four years but less than five years before ceasing to operate as an environmental technology manufacturing, producing or processing facility, twenty per cent.

I. The department by rule shall prescribe record keeping requirements for taxpayers who claim a credit under this section.

Sec. 18. Section 43-1081, Arizona Revised Statutes, is amended to read:

43-1081. Credit for pollution control equipment

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017**, a credit is allowed against the taxes imposed by this title for expenses that the taxpayer incurred during the taxable year to purchase real or personal property that is used in the taxpayer's trade or business in this state to control or prevent pollution. The amount of the credit is equal to ten per cent of the purchase price.

B. Property that qualifies for the credit under this section includes that portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition to or reconstruction, replacement or improvement of that property that is directly used, constructed, or installed in this state for the purpose of meeting or exceeding rules or regulations adopted by the United States environmental protection agency, the department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce air, water or land pollution that results from the taxpayer's direct operating activities in conducting a trade or business in this state.

C. The credit allowed pursuant to this section does not apply to:

1. The purchase of any personal property that is attached to a motor vehicle.

2. Any property that has a substantial use for a purpose other than the purposes described in subsection B.

3. Any portion of pollution control property that is included as a standard and integral part of another property.

D. Amounts that qualify for a credit under this section must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property with respect to which the taxpayer has claimed a credit shall be reduced by the amount of credit claimed with respect to that asset. This credit does not affect the deductibility for depreciation or amortization of the remaining adjusted basis of the asset.

E. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

F. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five taxable years' income tax liability.

G. The maximum credit that a taxpayer may claim under this section is five hundred thousand dollars in a taxable year.

Sec. 19. Section 43-1081.01, Arizona Revised Statutes, is amended to read:

43-1081.01. Credit for agricultural pollution control equipment

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for expenses that a taxpayer, involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products, incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's trade or business in this state to

1 control or prevent pollution. The amount of the credit is equal to
2 twenty-five per cent of the cost of the real or personal property. The
3 maximum credit that a taxpayer may claim under this section is twenty-five
4 thousand dollars in a taxable year.

5 B. Property that qualifies for the credit under this section includes
6 the portion of a structure, building, installation, excavation, machine,
7 equipment or device and any attachment or addition to or reconstruction,
8 replacement or improvement of that property that is directly used,
9 constructed or installed in this state to prevent, monitor, control or reduce
10 air, water or land pollution.

11 C. Amounts that qualify for a credit under this section must be
12 includible in the taxpayer's adjusted basis for the property. The adjusted
13 basis of any property with respect to which the taxpayer has claimed a credit
14 shall be reduced by the amount of credit claimed with respect to that asset.
15 This credit does not affect the deductibility for depreciation or
16 amortization of the remaining adjusted basis of the asset.

17 D. Co-owners of a business, including partners in a partnership and
18 shareholders of an S corporation, as defined in section 1361 of the internal
19 revenue code, may each claim only the pro rata share of the credit allowed
20 under this section based on the ownership interest. The total of the credits
21 allowed all such owners may not exceed the amount that would have been
22 allowed a sole owner.

23 E. If the allowable tax credit exceeds the taxes otherwise due under
24 this title on the claimant's income, or if there are no taxes due under this
25 title, the amount of the claim not used to offset the taxes under this title
26 may be carried forward to the next five consecutive taxable years as a credit
27 against subsequent years' income tax liability.

28 F. A taxpayer who claims a credit for pollution control equipment
29 under this section shall not claim a credit under section 43-1081 for the
30 same equipment or expense.

31 Sec. 20. Section 43-1083, Arizona Revised Statutes, is amended to
32 read:

33 43-1083. Credit for solar energy devices

34 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
35 allowed against the taxes imposed by this title for each resident who is not
36 a dependent of another taxpayer for installing a solar energy device, as
37 defined in section 42-5001, during the taxable year in the taxpayer's
38 residence located in this state. The credit is equal to twenty-five per cent
39 of the cost of the device.

40 B. The maximum credit in a taxable year may not exceed one thousand
41 dollars. The person who provides the solar energy device shall furnish the
42 taxpayer with an accounting of the cost to the taxpayer. A taxpayer may
43 claim the credit under this section only once in a tax year and may not
44 cumulate over different tax years tax credits under this section exceeding,
45 in the aggregate, one thousand dollars for the same residence.

C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset taxes under this title may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

D. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

E. The credit allowed under this section is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the solar energy device under section 167 of the internal revenue code.

F. To qualify for the credit under this section, the solar energy device and its installation shall meet the requirements of title 44, chapter 11, article 11.

G. A solar hot water heater plumbing stub out that was installed by the builder of a house or dwelling unit before title was conveyed to the taxpayer does not qualify for a credit under this section, but the taxpayer may claim a credit for the device under section 43-1090 or 43-1176 under the circumstances, conditions and limitations prescribed by section 43-1090, subsection C or 43-1176, subsection C, as applicable.

Sec. 21. Section 43-1084, Arizona Revised Statutes, is amended to read:

43-1084. Credit for agricultural water conservation system

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017**, a credit is allowed against the taxes imposed by this title for expenses that the taxpayer incurred during the taxable year to purchase and install an agricultural water conservation system in this state. The amount of the credit is equal to seventy-five per cent of the qualifying expenses.

B. To qualify for the credit under this section:

1. The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or the taxpayer's tenant to:

(a) Produce crops, fruits or other agricultural products.

(b) Raise, harvest or grow trees.

(c) Sustain livestock.

2. The expense must be consistent with a conservation plan that the taxpayer has filed and that is in effect with the United States department of agriculture soil conservation service.

C. Co-owners of the land on which the water conservation system is installed, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

D. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five taxable years' income tax liability.

E. The credit allowed by this section is in lieu of any deduction for such expenses allowed by the internal revenue code and included under section 43-1042 in computing taxable income.

Sec. 22. Section 43-1087, Arizona Revised Statutes, is amended to read:

43-1087. Credit for employment of temporary assistance for needy families recipients

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017**, a credit is allowed against the taxes imposed by this title for net increases in qualified employment by the taxpayer of recipients of temporary assistance for needy families as defined in section 46-101 who are residents of this state. The amount of the credit is equal to the sum of the following:

1. One-fourth of the taxable wages paid to each employee in qualified employment positions, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment. Wages that were subsidized as provided by section 46-299 shall not be included.

2. One-third of the taxable wages paid to each employee in qualified employment positions, not to exceed one thousand dollars per qualified employment position, in the second year of continuous employment. Wages that were subsidized as provided by section 46-299 shall not be included.

3. One-half of the taxable wages paid to each employee in qualified employment positions, not to exceed one thousand five hundred dollars per qualified employment position, in the third year of continuous employment. Wages that were subsidized as provided by section 46-299 shall not be included.

B. The credit allowed in this section is in lieu of any wage expense deduction taken for state tax purposes.

C. To qualify for a credit under this section:

1. All of the employees with respect to whom a credit is claimed must reside in this state and must be recipients of temporary assistance for needy families as defined in section 46-101 at the time the employee is hired.

2. A qualified employment position must meet all of the following requirements:

(a) The position must be classified as full-time employment.

(b) The employment must include health insurance coverage for the employee if the employer offers this coverage for employees who are not recipients of temporary assistance for needy families.

(c) The employer must pay compensation at least equal to the minimum wage or a wage comparable to that paid to employees who are not receiving

temporary assistance for needy families based on the employee's training, skills and job classification.

(d) The employee must have been employed for at least ninety days during the first taxable year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the next taxable year. Periods for which the employee's wages were subsidized as provided by section 46-299 shall not be included as periods of employment.

(e) The employee was not employed by the taxpayer within twelve months before the current date of hire.

(f) The employee position is not eligible for any other employment credit pursuant to this title based on wages paid.

D. The net increase in the number of qualified employment positions shall be determined by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year based on the taxpayer's report to the department of economic security for unemployment purposes.

E. If the allowable tax credit exceeds the income taxes otherwise due on the claimant's income, the amount of the claim not used as an offset against income taxes may be carried forward as a tax credit against subsequent years' income tax liability for the period, not to exceed five consecutive taxable years.

F. Co-owners of a business, including partners in a partnership and shareholders of an S corporation as defined in section 1361 of the internal revenue code, may claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all the owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

G. The department may adopt rules necessary for the administration of this section.

Sec. 23. Section 43-1088, Arizona Revised Statutes, is amended to read:

43-1088. Credit for contribution to charitable organization that provides assistance to the working poor; definitions

A. For taxable years beginning from and after December 31, 1997 AND ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for voluntary cash contributions made by the taxpayer during the taxable year to a qualifying charitable organization as determined pursuant to subsection F of this section, but not exceeding:

1. Two hundred dollars in any taxable year for a single individual or a head of household.

2. Three hundred dollars in taxable year 2005 for a married couple filing a joint return.

3. Four hundred dollars in taxable year 2006 and any subsequent TAXABLE year for a married couple filing a joint return.

1 B. A husband and wife who file separate returns for a taxable year in
2 which they could have filed a joint return may each claim only one-half of
3 the tax credit that would have been allowed for a joint return.

4 C. If the allowable tax credit exceeds the taxes otherwise due under
5 this title on the claimant's income, or if there are no taxes due under this
6 title, the taxpayer may carry forward the amount of the claim not used to
7 offset the taxes under this title for not more than five consecutive taxable
8 years' income tax liability.

9 D. The credit allowed by this section is in lieu of a deduction
10 pursuant to section 170 of the internal revenue code and taken for state tax
11 purposes.

12 E. Taxpayers taking a credit authorized by this section shall provide
13 the name of the qualifying charitable organization and the amount of the
14 contribution to the department of revenue on forms provided by the
15 department.

16 F. The credit under this section applies only to contributions to
17 qualifying charitable organizations that exceed the total amount deducted
18 pursuant to section 170 of the internal revenue code in the taxpayer's
19 baseline year. The taxpayer's baseline year is:

20 1. The 1996 taxable year if the taxpayer deducted charitable
21 contributions pursuant to section 170 of the internal revenue code in the
22 1996 taxable year.

23 2. If the taxpayer did not deduct charitable contributions pursuant to
24 section 170 of the internal revenue code in the 1996 taxable year, the
25 taxpayer's baseline year is the first taxable year after 1996 that the
26 taxpayer deducted charitable contributions pursuant to section 170 of the
27 internal revenue code.

28 G. A qualifying charitable organization shall provide the department
29 of revenue with a written certification that it meets all criteria to be
30 considered a qualifying charitable organization. The organization shall also
31 notify the department of any changes that may affect the qualifications under
32 this section. The department shall compile and make available to the public
33 a list of the qualifying organizations.

34 H. For the purposes of this section:

35 1. "Low income residents" means persons whose household income is less
36 than one hundred fifty per cent of the federal poverty level.

37 2. "Qualifying charitable organization" means a charitable
38 organization that is exempt from federal income taxation under section
39 501(c)(3) of the internal revenue code or is a designated community action
40 agency that receives community services block grant program monies pursuant
41 to 42 United States Code section 9901. The organization must spend at least
42 fifty per cent of its budget on services to residents of this state who
43 receive temporary assistance for needy families benefits or low income
44 residents of this state and their households. Taxpayers choosing to make
45 donations through an umbrella charitable organization that collects donations

on behalf of member charities shall designate that the donation be directed to a member charitable organization that would qualify under this section on a stand-alone basis.

3. "Services" means cash assistance, medical care, child care, food, clothing, shelter, job placement and job training services or any other assistance that is reasonably necessary to meet immediate basic needs and that is provided and used in this state.

Sec. 24. Section 43-1089, Arizona Revised Statutes, is amended to read:

43-1089. Credit for contributions to school tuition organization; definitions

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for the amount of voluntary cash contributions made by the taxpayer during the taxable year to a school tuition organization, but not exceeding:

1. Five hundred dollars in any taxable year for a single individual or a head of household.

2. Eight hundred twenty-five dollars in taxable year 2005 for a married couple filing a joint return.

3. One thousand dollars in taxable year 2006 and any subsequent TAXABLE year for a married couple filing a joint return.

B. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five consecutive taxable years' income tax liability.

D. The credit allowed by this section is in lieu of any deduction pursuant to section 170 of the internal revenue code and taken for state tax purposes.

E. The tax credit is not allowed if the taxpayer designates the taxpayer's contribution to the school tuition organization for the direct benefit of any dependent of the taxpayer.

F. A school tuition organization that receives a voluntary cash contribution pursuant to subsection A shall report to the department, in a form prescribed by the department, by February 28 of each year the following information:

1. The name, address and contact name of the school tuition organization.

2. The total number of contributions received during the previous calendar year.

1 3. The total dollar amount of contributions received during the
2 previous calendar year.

3 4. The total number of children awarded educational scholarships or
4 tuition grants during the previous calendar year.

5 5. The total dollar amount of educational scholarships and tuition
6 grants awarded during the previous calendar year.

7 6. For each school to which educational scholarships or tuition grants
8 were awarded:

9 (a) The name and address of the school.

10 (b) The number of educational scholarships and tuition grants awarded
11 during the previous calendar year.

12 (c) The total dollar amount of educational scholarships and tuition
13 grants awarded during the previous calendar year.

14 G. For the purposes of this section:

15 1. "Handicapped student" means a student who has any of the following
16 conditions:

17 (a) Hearing impairment.

18 (b) Visual impairment.

19 (c) Preschool moderate delay.

20 (d) Preschool severe delay.

21 (e) Preschool speech or language delay.

22 2. "Qualified school" means a nongovernmental primary school or
23 secondary school or a preschool for handicapped students that is located in
24 this state, that does not discriminate on the basis of race, color, handicap,
25 familial status or national origin and that satisfies the requirements
26 prescribed by law for private schools in this state on January 1, 1997.

27 3. "School tuition organization" means a charitable organization in
28 this state that is exempt from federal taxation under section 501(c)(3) of
29 the internal revenue code and that allocates at least ninety per cent of its
30 annual revenue for educational scholarships or tuition grants to children to
31 allow them to attend any qualified school of their parents' choice. In
32 addition, to qualify as a school tuition organization the charitable
33 organization shall provide educational scholarships or tuition grants to
34 students without limiting availability to only students of one school.

35 Sec. 25. Section 43-1089.01, Arizona Revised Statutes, is amended to
36 read:

37 43-1089.01. Tax credit; public school fees and contributions;
38 definitions

39 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
40 allowed against the taxes imposed by this title for the amount of any fees or
41 cash contributions made by a taxpayer during the taxable year to a public
42 school located in this state for the support of extracurricular activities or
43 character education programs of the public school, but not exceeding:

44 1. Two hundred dollars for a single individual or a head of household.

1 2. Three hundred dollars in taxable year 2005 for a married couple
2 filing a joint return.

3 3. Four hundred dollars in taxable year 2006 and any subsequent
4 TAXABLE year for a married couple filing a joint return.

5 B. A husband and wife who file separate returns for a taxable year in
6 which they could have filed a joint return may each claim only one-half of
7 the tax credit that would have been allowed for a joint return.

8 C. The credit allowed by this section is in lieu of any deduction
9 pursuant to section 170 of the internal revenue code and taken for state tax
10 purposes.

11 D. If the allowable tax credit exceeds the taxes otherwise due under
12 this title on the claimant's income, or if there are no taxes due under this
13 title, the taxpayer may carry the amount of the claim not used to offset the
14 taxes under this title forward for not more than five consecutive taxable
15 years' income tax liability.

16 E. The site council of the public school that receives contributions
17 that are not designated for a specific purpose shall determine how the
18 contributions are used at the school site. If a charter school does not have
19 a site council, the principal, director or chief administrator of the charter
20 school shall determine how the contributions that are not designated for a
21 specific purpose are used at the school site.

22 F. A public school that receives fees or a cash contribution pursuant
23 to subsection A of this section shall report to the department, in a form
24 prescribed by the department, by February 28 of each year the following
25 information:

26 1. The total number of fee and cash contribution payments received
27 during the previous calendar year.

28 2. The total dollar amount of fees and contributions received during
29 the previous calendar year.

30 3. The total dollar amount of fees and contributions spent by the
31 school during the previous calendar year.

32 G. For the purposes of this section:

33 1. "Character education programs" means a program described in section
34 15-719.

35 2. "Extracurricular activities" means school sponsored activities that
36 require enrolled students to pay a fee in order to participate, including
37 fees for:

38 (a) Band uniforms.

39 (b) Equipment or uniforms for varsity athletic activities.

40 (c) Scientific laboratory materials.

41 (d) In-state or out-of-state trips that are solely for competitive
42 events. Extracurricular activities do not include any senior trips or events
43 that are recreational, amusement or tourist activities.

1 Sec. 26. Section 43-1089.02, Arizona Revised Statutes, is amended to
2 read:

3 43-1089.02. Credit for donation of school site

4 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
5 allowed against the taxes imposed by this title in the amount of thirty per
6 cent of the value of real property and improvements donated by the taxpayer
7 to a school district or a charter school for use as a school or as a site for
8 the construction of a school.

9 B. To qualify for the credit:

10 1. The real property and improvements must be located in this state.

11 2. The real property and improvements must be conveyed unencumbered
12 and in fee simple, except that:

13 (a) The conveyance must include as a deed restriction and protective
14 covenant running with title to the land the requirement that as long as the
15 donee holds title to the property the property shall only be used as a school
16 or as a site for the construction of a school, subject to subsection I or J
17 of this section.

18 (b) In the case of a donation to a charter school, the donor shall
19 record a lien on the property as provided by subsection J, paragraph 3 of
20 this section.

21 3. The conveyance shall not violate section 15-341, subsection D ~~and~~
22 OR section 15-183, subsection ~~V~~ U.

23 C. For THE purposes of this section, the value of the donated property
24 is the property's fair market value as determined in an appraisal as defined
25 in section 32-3601 that is conducted by an independent party and that is paid
26 for by the donee.

27 D. If the property is donated by co-owners, including partners in a
28 partnership and shareholders of an S corporation, as defined in section 1361
29 of the internal revenue code, each donor may claim only the pro rata share of
30 the allowable credit under this section based on the ownership interest. If
31 the property is donated by a husband and wife who file separate returns for a
32 taxable year in which they could have filed a joint return, they may
33 determine between them the share of the credit each will claim. The total of
34 the credits allowed all co-owner donors may not exceed the allowable credit.

35 E. If the allowable tax credit exceeds the taxes otherwise due under
36 this title on the claimant's income, or if there are no taxes due under this
37 title, the taxpayer may carry the amount of the claim not used to offset the
38 taxes under this title forward for not more than five consecutive taxable
39 years' income tax liability.

40 F. The credit under this section is in lieu of any deduction pursuant
41 to section 170 of the internal revenue code taken for state tax purposes.

42 G. On written request by the donee, the donor shall disclose in
43 writing to the donee the amount of the credit allowed pursuant to this
44 section with respect to the property received by the donee.

1 H. A school district or charter school may refuse the donation of any
2 property for purposes of this section.

3 I. If the donee is a school district:

4 1. The district shall notify the school facilities board established
5 by section 15-2001 and furnish the board with any information the board
6 requests regarding the donation. A school district shall not accept a
7 donation pursuant to this section unless the school facilities board has
8 reviewed the proposed donation and has issued a written determination that
9 the real property and improvements are suitable as a school site or as a
10 school. The school facilities board shall issue a determination that the
11 real property and improvements are not suitable as a school site or as a
12 school if the expenses that would be necessary to make the property suitable
13 as a school site or as a school exceed the value of the proposed donation.

14 2. The district may sell any donated property pursuant to section
15 15-342, but the proceeds from the sale shall only be used for capital
16 projects. The school facilities board shall withhold an amount that
17 corresponds to the amount of the proceeds from any monies that would
18 otherwise be due the school district from the school facilities board
19 pursuant to section 15-2041.

20 J. If the donee is a charter school:

21 1. The charter school shall:

22 (a) Immediately notify the sponsor of the charter school by certified
23 mail and shall furnish the sponsor with any information requested by the
24 sponsor regarding the donation during the ten year period after the
25 conveyance is recorded.

26 (b) Notify the sponsor by certified mail, and the sponsor shall notify
27 the state treasurer, in the event of the charter school's financial failure
28 or if the charter school:

29 (i) Fails to establish a charter school on the property within
30 forty-eight months after the conveyance is recorded.

31 (ii) Fails to provide instruction to pupils on the property within
32 forty-eight months after the conveyance is recorded.

33 (iii) Establishes a charter school on the property but subsequently
34 ceases to operate the charter school on the property for twenty-four
35 consecutive months or fails to provide instruction to pupils on the property
36 for twenty-four consecutive months.

37 2. The charter school, or a successor in interest, shall pay to the
38 state treasurer the amount of the credit allowed under this section, or if
39 that amount is unknown, the amount of the allowable credit under this
40 section, if any of the circumstances listed in paragraph 1, subdivision (b)
41 of this subsection ~~occur~~ OCCURS. If the amount is not paid within one year
42 after the treasurer receives notice under paragraph 1, subdivision (b) of
43 this subsection, a penalty and interest shall be added, determined pursuant
44 to title 42, chapter 1, article 3.

3. A tax credit under this section constitutes a lien on the property, which the donor must record along with the title to the property to qualify for the credit. The amount of the lien is the amount of the allowable credit under this section, adjusted according to the average change in the GDP price deflator, as defined in section 41-563, for each calendar year since the donation, but not exceeding twelve and one-half per cent more than the allowable credit. The lien is subordinate to any liens securing the financing of the school construction. The lien is extinguished on the earliest of the following:

(a) Ten years after the lien is recorded. After that date, the charter school, or a successor in interest, may request the state treasurer to release the lien.

(b) On payment to the state treasurer by the donee charter school, or by a successor in interest, of the amount of the allowable credit under this section, either voluntarily or as required by paragraph 2 of this subsection. After the required amount is paid, the charter school or successor in interest may request the state treasurer to release the lien.

(c) On conveyance of fee simple title to the property to a school district.

(d) On enforcement and satisfaction of the lien pursuant to paragraph 4 of this subsection.

4. The state treasurer shall enforce the lien by foreclosure within one year after receiving notice of any of the circumstances described in paragraph 1, subdivision (b) of this subsection.

5. Subject to paragraphs 3 and 4 of this subsection, the charter school may sell any donated property.

Sec. 27. Section 43-1090, Arizona Revised Statutes, is amended to read:

43-1090. Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for costs incurred during the taxable year of installing or including in one or more houses or dwelling units located in this state and constructed by the taxpayer one or more:

1. Solar hot water plumbing stub outs. To qualify for the credit, the stub out must:

(a) Include two insulated three-fourths inch copper pipes and at least two pairs of wires for monitoring and control purposes that project from the dwelling roof or other suitable location and that are connected to the domestic hot water transport and storage system.

(b) Be located and configured to allow sufficient solar access and exposure and to allow ready installation of solar water heating devices without further expense or effort to reach, use or serve the domestic hot water system of the house or dwelling UNIT.

2. Electric vehicle recharge outlets. To qualify for the credit, the outlet must be connected to the utility system by a dedicated line that:

- (a) Is capable of operating at normal secondary voltages.
- (b) Meets applicable local building safety codes.
- (c) Is commensurate and consistent with electric vehicle recharging needs and methods.

B. The credit shall not exceed seventy-five dollars for each installation for each separate house or dwelling unit.

C. The taxpayer may elect to transfer a credit under this section to a purchaser or transferee of the house or dwelling unit. If the taxpayer elects to transfer the credit, the taxpayer shall deliver to the purchaser or transferee a written statement that the taxpayer has elected not to claim the credit and that the purchaser or transferee may claim the credit, subject to the conditions and limitations prescribed by this section.

D. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit not used to offset taxes under this title may be carried forward to the next five consecutive taxable years as a credit against subsequent years' income tax liability.

E. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

F. The credit allowed under this section is in lieu of any expenses taken for installing solar stub outs or electric vehicle recharge outlets ~~to reach~~ IN COMPUTING Arizona taxable income.

Sec. 28. Section 43-1163.01, Arizona Revised Statutes, is amended to read:

43-1163.01. Credit for motion picture infrastructure projects: definition

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for investments in motion picture infrastructure projects in this state as provided by section 41-1517.01. The amount of the credit is fifteen per cent of the total base investment in the project during the taxable year as approved and reported by the department of commerce pursuant to section 41-1517.01, subsection F. The taxpayer may apply the credit against income taxes for the taxable year in which the motion picture infrastructure project is completed as provided by section 41-1517.01, subsection F.

B. The department shall not allow:

- 1. Tax credits for any taxable year under this section and section 43-1075.01 that would violate the aggregate limits prescribed by section 41-1517.01, subsection C.

1 2. A tax credit under this section to a taxpayer that has a delinquent
2 tax balance owing to the department under this title or title 42.

3 C. An applicant, at its expense, may voluntarily enter into a limited
4 managed audit agreement pursuant to title 42, chapter 2, article 7 that
5 includes an audit of its base investment and other requirements prescribed by
6 section 41-1517.01 and by this section to confirm the amount of any credit
7 under this section. The request to enter into the audit must be made after
8 the applicant receives approval for the credit pursuant to section
9 41-1517.01, subsection F. The audit must be conducted by the applicant's
10 authorized representative, as defined in section 42-2301, who is an
11 independent certified public accountant licensed in this state. The
12 certified public accountant and the firm the certified public accountant is
13 affiliated with shall not regularly perform services for the taxpayer or its
14 affiliates. If the director accepts the findings of the audit and issues a
15 notice of determination pursuant to section 42-2303 and the taxpayer timely
16 files its income tax return with the appropriate credit claim forms, the
17 credit amount accepted is not subject to recapture, disallowance, reduction
18 or denial with respect to either the taxpayer or any subsequent transferee of
19 the credit, and subsection F, paragraph 4 of this section does not apply.
20 The director's notice of determination shall include a written certificate to
21 the taxpayer stating the amount of the credit and that the credit is not
22 subject to recapture from a transferee. This subsection does not prevent the
23 recapture of a credit if the taxpayer failed to disclose material information
24 during the audit or falsified its books or records or otherwise engaged in an
25 action that prevented an accurate audit.

26 D. Co-owners of a business, including corporate partners in a
27 partnership and members of a limited liability company, may allocate the
28 credit allowed under this section among the co-owners on any basis without
29 regard to their proportional ownership interest. The total of the credits
30 allowed all such owners may not exceed the amount that would have been
31 allowed for a sole owner of the company.

32 E. If the allowable tax credit for a taxpayer exceeds the taxes
33 otherwise due under this title on the claimant's income, or if there are no
34 taxes due under this title, the taxpayer may carry the amount of the claim
35 not used to offset the taxes under this title forward for not more than five
36 consecutive taxable years' income tax liability.

37 F. All or part of any unclaimed amount of credit under this section
38 may be sold or otherwise transferred under the following conditions:

39 1. A single sale or transfer may involve one or more transferees, and
40 a transferee may in turn resell or transfer the credit subject to the same
41 conditions of this subsection.

42 2. Both the transferor and transferee must submit a written notice of
43 the transfer to the department within thirty days after the sale or transfer.

44 The transferee's notice shall include a processing fee equal to one per cent

1 of the transferee's tax credit balance or two hundred dollars, whichever is
2 less. The notice shall include:

- 3 (a) The name of the taxpayer.
- 4 (b) The date of the transfer.
- 5 (c) The amount of the transfer.
- 6 (d) The transferor's tax credit balance before the transfer and the
7 remaining balance after the transfer.
- 8 (e) All tax identification numbers for both transferor and transferee.
- 9 (f) Any other information required by rule.

10 3. A sale or transfer of the credit does not extend the time in which
11 the credit can be used. The carryforward period of time under subsection E
12 of this section for a credit that is sold or transferred begins on the date
13 the credit was originally earned.

14 4. Except as provided by subsection C of this section, if a transferor
15 was not qualified or was disqualified from using the credit at the time of
16 the transfer, the department shall either disallow the credit claimed by a
17 transferee or recapture the credit from the transferee through any authorized
18 collection method. The transferee's recourse is against the transferor.

19 5. In the case of any failure to comply with this subsection, the
20 department shall disallow the tax credit until the taxpayer is in full
21 compliance.

22 G. The department of revenue shall maintain annual data on the total
23 amount of monies credited pursuant to this section, and shall provide that
24 data to the department of commerce on request.

25 H. The department of revenue, with the cooperation of the department
26 of commerce, shall adopt rules and publish and prescribe forms and procedures
27 as necessary to effectuate the purposes of this section.

28 I. A taxpayer that claims a credit for motion picture infrastructure
29 projects under this section shall not claim a credit under section 43-1163
30 for the same costs.

31 J. The credit allowed by this section is in lieu of any allowance for
32 state tax purposes of a deduction of those expenses allowed by the internal
33 revenue code.

34 K. For the purposes of this section, "motion picture infrastructure
35 project" has the same meaning prescribed in section 41-1517.01.

36 Sec. 29. Section 43-1165, Arizona Revised Statutes, is amended to
37 read:

38 43-1165. Credit for employment by qualified defense contractor

39 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
40 allowed against the taxes imposed by this title for:

- 41 1. Net increases in employment under United States department of
42 defense contracts during the taxable year, as computed under subsection D of
43 this section, by a qualified defense contractor that is certified by the
44 department of commerce under section 41-1508.

2. Net increases in private commercial employment during the taxable year, as computed under subsection E of this section, by a qualified defense contractor that is certified by the department of commerce under section 41-1508 due to full-time equivalent employee positions transferred during the taxable year by the taxpayer from exclusively defense related activities to employment by the taxpayer in exclusively private commercial activities.

B. The amount of the credit is a dollar amount allowed for each full-time equivalent employee position created, determined as follows:

1st year	\$2,500
2nd year	\$2,000
3rd year	\$1,500
4th year	\$1,000
5th year	\$ 500

C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward until taxable years beginning from and after December 31, 2011 as a credit against subsequent years' income tax liability, regardless of continuing certification as a qualified defense contractor.

D. The net increase in employment under defense related contracts shall be determined as follows:

1. Establish an employment baseline for the taxpayer based on a multiyear forecast of employment on United States department of defense contracts that was submitted to the department of defense before June 1, 1992. The annual average employment forecast for the first year the taxpayer qualified is the baseline. If the taxpayer did not make such a forecast before June 1, 1992, the baseline is the average annual employment as reported to the department of economic security during the preceding taxable year. If a taxpayer qualifies in the same year it relocates into this state, the taxpayer's baseline is zero.

2. For the first year of the credit, the taxpayer's net increase in average employment is the increase in employment reported to the department of economic security for the taxable year over the employment baseline.

3. For each succeeding year of the credit, the taxpayer's net increase in average employment is the increase in employment reported to the department of economic security for the taxable year over the preceding taxable year's average employment.

E. In computing the amount of credit allowed under subsection A, paragraph 2 of this section, the taxpayer shall:

1. Prorate employment during the taxable year according to the date of transfer from defense to private commercial activities or the date of transfer from private commercial activities to defense.

2. Compute and subtract an amount pursuant to subsection B of this section for full-time equivalent employee positions that were transferred

1 during the taxable year by the taxpayer from exclusively private commercial
2 activities to exclusively defense related activities.

3 F. The taxpayer shall account for qualifying full-time equivalent
4 employee positions on a first-in first-out basis. If a decrease in
5 qualifying employment occurs, the taxpayer shall subtract the decrease from
6 the earliest qualifying positions.

7 G. A credit is not allowed under both subsection A, paragraphs 1 and 2
8 of this section with respect to the same employee position. A full-time
9 equivalent employee position may be considered for purposes of computing the
10 credit under either subsection A, paragraph 1 or 2 of this section, but not
11 both.

12 H. A credit is not allowed under this section with respect to
13 employment that was transferred from an outside contractor in this state to
14 in-house employment by the taxpayer solely for purposes of qualifying for the
15 credit.

16 I. A taxpayer that claims a credit under section 43-1161 or 43-1167
17 may not claim a credit under this section with respect to the same employees.

18 J. Co-owners of a business, including corporate partners in a
19 partnership, may each claim only the pro rata share of the credit allowed
20 under this section based on the ownership interest. The total of the credits
21 allowed all such owners may not exceed the amount that would have been
22 allowed for a sole owner of the business.

23 Sec. 30. Section 43-1166, Arizona Revised Statutes, is amended to
24 read:

25 43-1166. Credit for property taxes paid by qualified defense
26 contractor

27 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
28 allowed against the taxes imposed by this title equal to a portion of the
29 amount paid as taxes during the taxable year by a qualified defense
30 contractor that is certified by the department of commerce under section
31 41-1508 on property in this state that is classified as class one, paragraphs
32 12 and 13 pursuant to section 42-12001.

33 B. The amount of the credit is determined as follows:

34 1. Multiply the amount paid as taxes on property classified as class
35 one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during
36 the taxable year by a percentage based on net new defense related employment,
37 determined by subtracting the employment baseline determined pursuant to
38 section 43-1165, subsection D, paragraph 1 from average annual employment as
39 reported to the department of economic security for the taxable year, as
40 follows:

<u>New employment</u>	<u>Credit percentage</u>
More than 900	40%
601 - 900	30%
301 - 600	20%
1 - 300	10%

2. Multiply the amount determined under paragraph 1 of this subsection by a percentage determined by dividing the taxpayer's total gross income from United States department of defense contracts apportioned to this state by the taxpayer's total gross income from all sources apportioned to this state.

C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward until taxable years beginning from and after December 31, 2011 as a credit against subsequent years' income tax liability, regardless of continuing certification as a qualified defense contractor.

D. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Sec. 31. Section 43-1167, Arizona Revised Statutes, is amended to read:

43-1167. Credit for increased employment in military reuse zones; definition

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017**, a credit is allowed against the taxes imposed by this title for net increases in employment by the taxpayer of full-time employees working in a military reuse zone, established under title 41, chapter 10, article 3, and who are primarily engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit is a dollar amount allowed for each new employee, determined as follows:

1. With respect to each employee other than a dislocated military base employee:

1st year of employment	\$ 500
2nd year of employment	\$1,000
3rd year of employment	\$1,500
4th year of employment	\$2,000
5th year of employment	\$2,500

2. With respect to each dislocated military base employee:

1st year of employment	\$1,000
2nd year of employment	\$1,500
3rd year of employment	\$2,000
4th year of employment	\$2,500
5th year of employment	\$3,000

B. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset the taxes under this title may be carried forward as a credit against subsequent years' income tax

liability for the period, not to exceed five taxable years, if the business remains in the military reuse zone.

C. The net increase in the number of employees for purposes of this section shall be determined by comparing the taxpayer's average employment in the military reuse zone during the taxable year with the taxpayer's previous year's fourth quarter employment in the zone, based on the taxpayer's report to the department of economic security for unemployment insurance purposes but considering only employment in the zone.

D. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

E. A credit is not allowed under this section with respect to an employee whose place of employment is relocated by the taxpayer from a location in this state to the military reuse zone unless the employee is engaged in aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products and the taxpayer maintains at least the same number of employees in this state but outside the zone.

F. A taxpayer who claims a credit under section 43-1161 or 43-1165 may not claim a credit under this section with respect to the same employees.

G. For the purposes of this section, "dislocated military base employee" means a civilian who previously had permanent full-time civilian employment on the military facility as of the date the closure of the facility was finally determined under federal law, as certified by the department of commerce.

Sec. 32. Section 43-1167.01, Arizona Revised Statutes, is amended to read:

43-1167.01. Credit for employing national guard members

A. For taxable years beginning from and after December 31, 2005 AND ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for a taxpayer whose employee is a member of the Arizona national guard if the employee is placed on active duty. The amount of the credit is one thousand dollars for each employee who is placed on active duty by the Arizona national guard.

B. To qualify for the credit:

1. The employee must be a member of the Arizona national guard who is employed by the taxpayer in a full-time equivalent position when the employee is placed on active duty.

2. Each member of the Arizona national guard who is employed must have served during the taxable year on active duty for training that exceeds the required annual training period, including any activation for federal or state contingencies or emergencies.

C. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this

1 title, the amount of the claim not used to offset taxes under this title may
2 be carried forward for not more than five consecutive taxable years as a
3 credit against subsequent years' income tax liability.

4 D. The credit under this section may be claimed only once by the
5 taxpayer in any taxable year with respect to each employee who is placed on
6 active duty by the Arizona national guard, but may be claimed again for that
7 employee in a subsequent taxable year if that employee remains on active duty
8 or is placed again on active duty in a subsequent taxable year.

9 E. Co-owners of a business, including corporate partners in a
10 partnership, may each claim only the pro rata share of the credit allowed
11 under this section based on the ownership interest. The total of the credits
12 allowed all such owners may not exceed the amount that would have been
13 allowed a sole owner.

14 Sec. 33. Section 43-1168, Arizona Revised Statutes, as amended by Laws
15 2001, chapter 115, section 28, is amended to read:

16 43-1168. Credit for increased research activities

17 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
18 allowed against the taxes imposed by this title in an amount determined
19 pursuant to section 41 of the internal revenue code, except that:

20 1. The amount of the credit is computed as follows:

21 (a) Add:

22 (i) The excess, if any, of the qualified research expenses for the
23 taxable year over the base amount as defined in section 41(c) of the internal
24 revenue code.

25 (ii) The basic research payments determined under section 41(e)(1)(A)
26 of the internal revenue code.

27 (b) If the sum computed under subdivision (a) is two million five
28 hundred thousand dollars or less, the credit is equal to twenty per cent of
29 that amount.

30 (c) If the sum computed under subdivision (a) is over two million five
31 hundred thousand dollars, the credit is equal to five hundred thousand
32 dollars plus eleven per cent of any amount exceeding two million five hundred
33 thousand dollars, except that:

34 (i) For taxable years beginning from and after December 31, 2000
35 through December 31, 2001, the credit shall not exceed one million five
36 hundred thousand dollars.

37 (ii) For taxable years beginning from and after December 31, 2001
38 through December 31, 2002, the credit shall not exceed two million five
39 hundred thousand dollars.

40 2. Qualified research includes only research conducted in this state
41 including research conducted at a university in this state and paid for by
42 the taxpayer.

43 3. If two or more taxpayers, including corporate partners in a
44 partnership, share in the eligible expenses, each taxpayer is eligible to
45 receive a proportionate share of the credit.

1 4. The credit under this section applies only to expenses incurred
2 from and after December 31, 1993.

3 5. The termination provisions of section 41 of the internal revenue
4 code do not apply.

5 B. If the allowable credit under this section exceeds the taxes
6 otherwise due under this title on the claimant's income, or if there are no
7 taxes due under this title, the amount of the credit not used to offset taxes
8 may be carried forward to the next fifteen consecutive taxable years. The
9 amount of credit carryforward from taxable years beginning from and after
10 December 31, 2000 through December 31, 2002 that may be used under this
11 subsection in any taxable year may not exceed the taxpayer's tax liability
12 under this title or five hundred thousand dollars, whichever is less, minus
13 the credit under this section for the current taxable year's qualified
14 research expenses. The amount of credit carryforward from taxable years
15 beginning from and after December 31, 2002 that may be used under this
16 subsection in any taxable year may not exceed the taxpayer's tax liability
17 under this title minus the credit under this section for the current taxable
18 year's qualified research expenses.

19 C. If a taxpayer has qualified research expenses that are carried
20 forward from taxable years beginning before January 1, 2001, the amount of
21 the expenses carried forward shall be converted to a credit carryforward by
22 multiplying the amount of the qualified expenses carried forward by twenty
23 per cent. A credit carryforward determined under this subsection may be
24 carried forward to not more than fifteen years from the year in which the
25 expenses were incurred. The amount of credit carryforward from taxable years
26 beginning before January 1, 2001 that may be used under this subsection in
27 any taxable year may not exceed the taxpayer's tax liability under this title
28 or five hundred thousand dollars, whichever is less, minus the credit under
29 this section for the current taxable year's qualified research expenses. The
30 total amount of credit carryforward from taxable years beginning before
31 January 1, 2003 that may be used in any taxable year under ~~the provisions of~~
32 subsection B and this subsection may not exceed the taxpayer's tax liability
33 under this title or five hundred thousand dollars, whichever is less, minus
34 the credit under this section for the current taxable year's qualified
35 research expenses.

36 Sec. 34. Section 43-1168, Arizona Revised Statutes, as amended by Laws
37 2008, chapter 290, section 5, is amended to read:

38 43-1168. Credit for increased research activities

39 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is
40 allowed against the taxes imposed by this title in an amount determined
41 pursuant to section 41 of the internal revenue code, except that:

1 1. The amount of the credit is computed as follows:

2 (a) Add:

3 (i) The excess, if any, of the qualified research expenses for the
4 taxable year over the base amount as defined in section 41(c) of the internal
5 revenue code.

6 (ii) The basic research payments determined under section 41(e)(1)(A)
7 of the internal revenue code.

8 (b) If the sum computed under subdivision (a) is two million five
9 hundred thousand dollars or less, the credit is equal to twenty-four per cent
10 of that amount.

11 (c) If the sum computed under subdivision (a) is over two million five
12 hundred thousand dollars, the credit is equal to six hundred thousand dollars
13 plus fifteen per cent of any amount exceeding two million five hundred
14 thousand dollars, except that:

15 (i) For taxable years beginning from and after December 31, 2000
16 through December 31, 2001, the credit shall not exceed one million five
17 hundred thousand dollars.

18 (ii) For taxable years beginning from and after December 31, 2001
19 through December 31, 2002, the credit shall not exceed two million five
20 hundred thousand dollars.

21 2. Qualified research includes only research conducted in this state
22 including research conducted at a university in this state and paid for by
23 the taxpayer.

24 3. If two or more taxpayers, including corporate partners in a
25 partnership, share in the eligible expenses, each taxpayer is eligible to
26 receive a proportionate share of the credit.

27 4. The credit under this section applies only to expenses incurred
28 from and after December 31, 1993.

29 5. The termination provisions of section 41 of the internal revenue
30 code do not apply.

31 B. If the allowable credit under this section exceeds the taxes
32 otherwise due under this title on the claimant's income, or if there are no
33 taxes due under this title, the amount of the credit not used to offset taxes
34 may be carried forward to the next fifteen consecutive taxable years. The
35 amount of credit carryforward from taxable years beginning from and after
36 December 31, 2000 through December 31, 2002 that may be used under this
37 subsection in any taxable year may not exceed the taxpayer's tax liability
38 under this title or five hundred thousand dollars, whichever is less, minus
39 the credit under this section for the current taxable year's qualified
40 research expenses. The amount of credit carryforward from taxable years
41 beginning from and after December 31, 2002 that may be used under this
42 subsection in any taxable year may not exceed the taxpayer's tax liability
43 under this title minus the credit under this section for the current taxable
44 year's qualified research expenses.

1 C. If a taxpayer has qualified research expenses that are carried
2 forward from taxable years beginning before January 1, 2001, the amount of
3 the expenses carried forward shall be converted to a credit carryforward by
4 multiplying the amount of the qualified expenses carried forward by twenty
5 per cent. A credit carryforward determined under this subsection may be
6 carried forward to not more than fifteen years from the year in which the
7 expenses were incurred. The amount of credit carryforward from taxable years
8 beginning before January 1, 2001 that may be used under this subsection in
9 any taxable year may not exceed the taxpayer's tax liability under this title
10 or five hundred thousand dollars, whichever is less, minus the credit under
11 this section for the current taxable year's qualified research expenses. The
12 total amount of credit carryforward from taxable years beginning before
13 January 1, 2003 that may be used in any taxable year under subsection B and
14 this subsection may not exceed the taxpayer's tax liability under this title
15 or five hundred thousand dollars, whichever is less, minus the credit under
16 this section for the current taxable year's qualified research expenses.

17 Sec. 35. Section 43-1168, Arizona Revised Statutes, as added by Laws
18 2008, chapter 290, section 7, is amended to read:

19 43-1168. Credit for increased research activity

20 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2026, a credit is
21 allowed against the taxes imposed by this title in an amount determined
22 pursuant to section 41 of the internal revenue code, except that:

23 1. The amount of the credit is computed as follows:

24 (a) Add:

25 (i) The excess, if any, of the qualified research expenses for the
26 taxable year over the base amount as defined in section 41(c) of the internal
27 revenue code.

28 (ii) The basic research payments determined under section 41(e)(1)(A)
29 of the internal revenue code.

30 (b) If the sum computed under subdivision (a) is two million five
31 hundred thousand dollars or less, the credit is equal to twenty per cent of
32 that amount.

33 (c) If the sum computed under subdivision (a) is over two million five
34 hundred thousand dollars, the credit is equal to five hundred thousand
35 dollars plus eleven per cent of any amount exceeding two million five hundred
36 thousand dollars, except that:

37 (i) For taxable years beginning from and after December 31, 2000
38 through December 31, 2001, the credit shall not exceed one million five
39 hundred thousand dollars.

40 (ii) For taxable years beginning from and after December 31, 2001
41 through December 31, 2002, the credit shall not exceed two million five
42 hundred thousand dollars.

43 2. Qualified research includes only research conducted in this state
44 including research conducted at a university in this state and paid for by
45 the taxpayer.

1 3. If two or more taxpayers, including corporate partners in a
2 partnership, share in the eligible expenses, each taxpayer is eligible to
3 receive a proportionate share of the credit.

4 4. The credit under this section applies only to expenses incurred
5 from and after December 31, 1993.

6 5. The termination provisions of section 41 of the internal revenue
7 code do not apply.

8 B. If the allowable credit under this section exceeds the taxes
9 otherwise due under this title on the claimant's income, or if there are no
10 taxes due under this title, the amount of the credit not used to offset taxes
11 may be carried forward to the next fifteen consecutive taxable years. The
12 amount of credit carryforward from taxable years beginning from and after
13 December 31, 2000 through December 31, 2002 that may be used under this
14 subsection in any taxable year may not exceed the taxpayer's tax liability
15 under this title or five hundred thousand dollars, whichever is less, minus
16 the credit under this section for the current taxable year's qualified
17 research expenses. The amount of credit carryforward from taxable years
18 beginning from and after December 31, 2002 that may be used under this
19 subsection in any taxable year may not exceed the taxpayer's tax liability
20 under this title minus the credit under this section for the current taxable
21 year's qualified research expenses.

22 C. If a taxpayer has qualified research expenses that are carried
23 forward from taxable years beginning before January 1, 2001, the amount of
24 the expenses carried forward shall be converted to a credit carryforward by
25 multiplying the amount of the qualified expenses carried forward by twenty
26 per cent. A credit carryforward determined under this subsection may be
27 carried forward to not more than fifteen years from the year in which the
28 expenses were incurred. The amount of credit carryforward from taxable years
29 beginning before January 1, 2001 that may be used under this subsection in
30 any taxable year may not exceed the taxpayer's tax liability under this title
31 or five hundred thousand dollars, whichever is less, minus the credit under
32 this section for the current taxable year's qualified research expenses. The
33 total amount of credit carryforward from taxable years beginning before
34 January 1, 2003 that may be used in any taxable year under subsection B and
35 this subsection may not exceed the taxpayer's tax liability under this title
36 or five hundred thousand dollars, whichever is less, minus the credit under
37 this section for the current taxable year's qualified research expenses.

38 Sec. 36. Section 43-1169, Arizona Revised Statutes, is amended to
39 read:

40 43-1169. Credit for construction costs of qualified
41 environmental technology facility

42 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
43 allowed against the taxes imposed by this title for expenses incurred in
44 constructing a qualified environmental technology manufacturing, producing or
45 processing facility as described in section 41-1514.02. The amount of the

1 credit is equal to ten per cent of the amount spent during the taxable year
2 to construct the facility, including land acquisition, improvements, building
3 improvements, machinery and equipment, but not exceeding seventy-five per
4 cent of the tax liability under this title for the taxable year determined
5 without applying the credit.

6 B. Amounts qualifying for the credit under this section must be
7 includible in the taxpayer's adjusted basis for the facility. The adjusted
8 basis of any asset with respect to which the taxpayer has claimed a credit
9 shall be reduced by the amount of credit claimed with respect to that
10 asset. This credit does not affect the deductibility for depreciation or
11 amortization of the remaining adjusted basis of the asset.

12 C. A taxpayer may claim a credit under this section with respect to
13 new qualifying construction within ten years after the start of the
14 facility's initial construction, but a credit is not allowed under this
15 section for any amount spent more than ten years after the start of the
16 facility's initial construction.

17 D. A taxpayer qualifies for the credit under this section if the
18 taxpayer owns the facility or leases the facility or any component of the
19 facility for a term of five or more years.

20 E. If the allowable tax credit exceeds seventy-five per cent of the
21 taxes otherwise due under this title on the claimant's income, or if there
22 are no taxes due under this title, the amount of the claim not used to offset
23 taxes under this title may be carried forward for not more than fifteen
24 taxable years as a credit against subsequent years' income tax liability.

25 F. Co-owners of a business, including partners in a partnership, may
26 each claim only the pro rata share of the credit allowed under this section
27 based on the ownership interest. The total of the credits allowed all such
28 owners may not exceed the amount that would have been allowed for a sole
29 owner of the business.

30 G. If either of the following circumstances occurs with respect to a
31 qualified environmental technology manufacturing, producing or processing
32 facility, the tax imposed by this title for the taxable year in which the
33 circumstance occurs shall be increased by the full amount of all credits
34 previously allowed under this section with respect to that facility:

35 1. The taxpayer abandons construction before the facility is placed in
36 service.

37 2. Before the facility is placed in service, the taxpayer changes
38 plans in such a manner as to no longer qualify as an environmental technology
39 manufacturing, producing or processing facility under section 41-1514.02.

40 H. If, within five years after being placed in service, an operating
41 environmental technology manufacturing, producing or processing facility with
42 respect to which a credit has been allowed under this section ceases for any
43 reason to operate as an environmental technology manufacturing, producing or
44 processing facility as described in section 41-1514.02, the tax imposed by
45 this title for the taxable year shall be increased by an amount determined by

1 multiplying the full amount of all credits previously allowed under this
2 section with respect to that facility by a percentage determined as follows:

3 1. If the facility was placed in service less than one year before
4 ceasing to operate as an environmental technology manufacturing, producing or
5 processing facility, one hundred per cent.

6 2. If the facility was placed in service at least one year but not
7 more than two years before ceasing to operate as an environmental technology
8 manufacturing, producing or processing facility, eighty per cent.

9 3. If the facility was placed in service at least two years but less
10 than three years before ceasing to operate as an environmental technology
11 manufacturing, producing or processing facility, sixty per cent.

12 4. If the facility was placed in service at least three years but less
13 than four years before ceasing to operate as an environmental technology
14 manufacturing, producing or processing facility, forty per cent.

15 5. If the facility was placed in service at least four years but less
16 than five years before ceasing to operate as an environmental technology
17 manufacturing, producing or processing facility, twenty per cent.

18 I. The department by rule shall prescribe record keeping requirements
19 for taxpayers who claim a credit under this section.

20 Sec. 37. Section 43-1170, Arizona Revised Statutes, is amended to
21 read:

22 43-1170. Credit for pollution control equipment

23 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
24 allowed against the taxes imposed by this title for expenses that the
25 taxpayer incurred during the taxable year to purchase real or personal
26 property that is used in the taxpayer's trade or business in this state to
27 control or prevent pollution. The amount of the credit is equal to ten per
28 cent of the purchase price.

29 B. Property that qualifies for the credit under this section includes
30 that portion of a structure, building, installation, excavation, machine,
31 equipment or device and any attachment or addition to or reconstruction,
32 replacement or improvement of that property that is directly used,
33 constructed or installed in this state for the purpose of meeting or
34 exceeding rules or regulations adopted by the United States environmental
35 protection agency, the department of environmental quality or a political
36 subdivision of this state to prevent, monitor, control or reduce air, water
37 or land pollution that results from the taxpayer's direct operating
38 activities in conducting a trade or business in this state.

39 C. The credit allowed pursuant to this section does not apply to:

40 1. The purchase of any personal property that is attached to a motor
41 vehicle.

42 2. Any property that has a substantial use for a purpose other than
43 the purposes described in subsection B.

44 3. Any portion of pollution control property that is included as a
45 standard and integral part of another property.

1 D. Amounts that qualify for a credit under this section must be
2 includible in the taxpayer's adjusted basis for the property. The adjusted
3 basis of any property with respect to which the taxpayer has claimed a credit
4 shall be reduced by the amount of credit claimed with respect to that
5 asset. This credit does not affect the deductibility for depreciation or
6 amortization of the remaining adjusted basis of the asset.

7 E. Co-owners of a business, including corporate partners in a
8 partnership, may each claim only the pro rata share of the credit allowed
9 under this section based on the ownership interest. The total of the credits
10 allowed all such owners may not exceed the amount that would have been
11 allowed a sole owner.

12 F. If the allowable tax credit exceeds the taxes otherwise due under
13 this title on the claimant's income, or if there are no taxes due under this
14 title, the taxpayer may carry the amount of the claim not used to offset the
15 taxes under this title forward for not more than five taxable years' income
16 tax liability.

17 G. The maximum credit that a taxpayer may claim under this section is
18 five hundred thousand dollars in a taxable year.

19 Sec. 38. Section 43-1170.01, Arizona Revised Statutes, is amended to
20 read:

21 43-1170.01. Credit for agricultural pollution control equipment

22 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
23 allowed against the taxes imposed by this title for expenses that a taxpayer,
24 involved in the commercial production of livestock, livestock products or
25 agricultural, horticultural, viticultural or floricultural crops or products,
26 incurred during the taxable year to purchase tangible personal property that
27 is primarily used in the taxpayer's trade or business in this state to
28 control or prevent pollution. The amount of the credit is equal to twenty-
29 five per cent of the cost of the real or personal property. The maximum
30 credit that a taxpayer may claim under this section is twenty-five thousand
31 dollars in a taxable year.

32 B. Property that qualifies for the credit under this section includes
33 the portion of a structure, building, installation, excavation, machine,
34 equipment or device and any attachment or addition to or reconstruction,
35 replacement or improvement of that property that is directly used,
36 constructed or installed in this state to prevent, monitor, control or reduce
37 air, water or land pollution.

38 C. Amounts that qualify for a credit under this section must be
39 includible in the taxpayer's adjusted basis for the property. The adjusted
40 basis of any property with respect to which the taxpayer has claimed a credit
41 shall be reduced by the amount of credit claimed with respect to that asset.
42 This credit does not affect the deductibility for depreciation or
43 amortization of the remaining adjusted basis of the asset.

44 D. Co-owners of a business, including corporate partners in a
45 partnership, may each claim only the pro rata share of the credit allowed

under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

E. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the claim not used to offset the taxes under this title may be carried forward to the next five consecutive taxable years as a credit against subsequent years' income tax liability.

F. A taxpayer who claims a credit for pollution control equipment under this section shall not claim a credit under section 43-1170 for the same equipment or expense.

Sec. 39. Section 43-1175, Arizona Revised Statutes, is amended to read:

43-1175. Credit for employment of temporary assistance for needy families recipients

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for net increases in qualified employment by the taxpayer of recipients of temporary assistance for needy families as defined in section 46-101 who are residents of this state. The amount of the credit is equal to the sum of the following:

1. One-fourth of the taxable wages paid to each employee in qualified employment positions, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment. Wages that were subsidized as provided by section 46-299 shall not be included.

2. One-third of the taxable wages paid to each employee in qualified employment positions, not to exceed one thousand dollars per qualified employment position, in the second year of continuous employment. Wages that were subsidized as provided by section 46-299 shall not be included.

3. One-half of the taxable wages paid to each employee in qualified employment positions, not to exceed one thousand five hundred dollars per qualified employment position, in the third year of continuous employment. Wages that were subsidized as provided by section 46-299 shall not be included.

B. The credit allowed in this section is in lieu of any wage expense deduction taken for state tax purposes.

C. To qualify for a credit under this section:

1. All of the employees with respect to whom a credit is claimed must reside in this state and must be recipients of temporary assistance for needy families as defined in section 46-101 at the time the employee is hired.

2. A qualified employment position must meet all of the following requirements:

(a) The position must be classified as full-time employment.

(b) The employment must include health insurance coverage for the employee if the employer offers this coverage for employees who are not recipients of temporary assistance for needy families.

(c) The employer must pay compensation at least equal to the minimum wage or a wage comparable to that paid to employees who are not receiving temporary assistance for needy families based on the employee's training, skills and job classification.

(d) The employee must have been employed for at least ninety days during the first taxable year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the next taxable year. Periods for which the employee's wages were subsidized as provided by section 46-299 shall not be included as periods of employment.

(e) The employee was not employed by the taxpayer within twelve months before the current date of hire.

(f) The employee position is not eligible for any other employment credit pursuant to this title based on wages paid.

D. The net increase in the number of qualified employment positions shall be determined by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year based on the taxpayer's report to the department of economic security for unemployment purposes.

E. If the allowable tax credit exceeds the income taxes otherwise due on the claimant's income, the amount of the claim not used as an offset against income taxes may be carried forward as a tax credit against subsequent years' income tax liability for the period, not to exceed five consecutive taxable years.

F. Co-owners of a business, including corporate partners in a partnership, may claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all of the owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

G. The department may adopt rules necessary for the administration of this section.

Sec. 40. Section 43-1176, Arizona Revised Statutes, is amended to read:

43-1176. Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer

A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017**, a credit is allowed against the taxes imposed by this title for costs incurred during the taxable year of installing or including in one or more houses or dwelling units located in this state and constructed by the taxpayer one or more:

1. Solar hot water plumbing stub outs. To qualify for the credit the stub out must:

(a) Include two insulated three-fourths inch copper pipes and at least two pairs of wires for monitoring and control purposes that project from the dwelling roof or other suitable location and that are connected to the domestic hot water transport and storage system.

(b) Be located and configured to allow sufficient solar access and exposure and to allow ready installation of solar water heating devices without further expense or effort to reach, use or serve the domestic hot water system of the house or dwelling UNIT.

2. Electric vehicle recharge outlets. To qualify for the credit, the outlet must be connected to the utility system by a dedicated line that:

(a) Is capable of operating at normal secondary voltages.

(b) Meets applicable local building safety codes.

(c) Is commensurate and consistent with electric vehicle recharging needs and methods.

B. The credit shall not exceed seventy-five dollars for each installation for each separate house or dwelling unit.

C. The taxpayer may elect to transfer a credit under this section to a purchaser or transferee of the house or dwelling unit. If the taxpayer elects to transfer the credit, the taxpayer shall deliver to the purchaser or transferee a written statement that the taxpayer has elected not to claim the credit and that the purchaser or transferee may claim the credit, subject to the conditions and limitations prescribed by this section.

D. If the allowable credit exceeds the taxes otherwise due under this title on the claimant's income or if there are no taxes due under this title, the amount of the credit not used to offset taxes under this title may be carried forward to the next five consecutive taxable years as a credit against subsequent years' income tax liability.

E. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

F. The credit allowed under this section is in lieu of any expenses taken for installing solar stub outs or electric vehicle recharge outlets ~~to reach~~ IN COMPUTING Arizona taxable income.

Sec. 41. Section 43-1178, Arizona Revised Statutes, is amended to read:

43-1178. Credit for taxes with respect to coal consumed in generating electrical power

A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is allowed against the taxes imposed by this title for a taxpayer that purchases coal consumed in generating electrical power in this state. The credit is equal to thirty per cent of the amount paid by the seller or purchaser as transaction privilege or use tax with respect to the coal sold to the taxpayer.

B. Co-owners of a business, including corporate partners in a partnership, may claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits

1 allowed all of the owners of the business may not exceed the amount that
2 would have been allowed for a sole owner of the business.

3 C. If the allowable tax credit exceeds the taxes otherwise due under
4 this title on the claimant's income, or if there are no taxes due under this
5 title, the amount of the claim not used as an offset against income taxes may
6 be carried forward to the next five consecutive taxable years as a credit
7 against subsequent years' income tax liability.

8 D. The credit under this section is in lieu of any allowance for state
9 tax purposes for a deduction for the expenses allowed by the internal revenue
10 code.

11 Sec. 42. Section 43-1181, Arizona Revised Statutes, is amended to
12 read:

13 43-1181. Credit of donation of school site

14 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2017, a credit is
15 allowed against the taxes imposed by this title in the amount of thirty per
16 cent of the value of real property and improvements donated by the taxpayer
17 to a school district or a charter school for use as a school or as a site for
18 the construction of a school.

19 B. To qualify for the credit:

20 1. The real property and improvements must be located in this state.

21 2. The real property and improvements must be conveyed unencumbered
22 and in fee simple except that:

23 (a) The conveyance must include as a deed restriction and protective
24 covenant running with title to the land the requirement that as long as the
25 donee holds title to the property the property shall only be used as a school
26 or as a site for the construction of a school, subject to subsection I or J
27 of this section.

28 (b) In the case of a donation to a charter school, the donor shall
29 record a lien on the property as provided by subsection J, paragraph 3 of
30 this section.

31 3. The conveyance shall not violate section 15-341, subsection D or
32 section 15-183, subsection U.

33 C. For the purposes of this section, the value of the donated property
34 is the property's fair market value as determined in an appraisal as defined
35 in section 32-3601 that is conducted by an independent party and that is paid
36 for by the donee.

37 D. If the property is donated by co-owners, including corporate
38 partners in a partnership, each donor may claim only the pro rata share of
39 the allowable credit under this section based on the ownership interest. The
40 total of the credits allowed all co-owner donors may not exceed the allowable
41 credit.

42 E. If the allowable tax credit exceeds the taxes otherwise due under
43 this title on the claimant's income, or if there are no taxes due under this
44 title, the taxpayer may carry the amount of the claim not used to offset the

1 taxes under this title forward for not more than five consecutive taxable
2 years' income tax liability.

3 F. The credit under this section is in lieu of any deduction pursuant
4 to section 170 of the internal revenue code taken for state tax purposes.

5 G. On written request by the donee, the donor shall disclose in
6 writing to the donee the amount of the credit allowed pursuant to this
7 section with respect to the property received by the donee.

8 H. A school district or charter school may refuse the donation of any
9 property for purposes of this section.

10 I. If the donee is a school district:

11 1. The district shall notify the school facilities board established
12 by section 15-2001 and furnish the board with any information the board
13 requests regarding the donation. A school district shall not accept a
14 donation pursuant to this section unless the school facilities board has
15 reviewed the proposed donation and has issued a written determination that
16 the real property and improvements are suitable as a school site or as a
17 school. The school facilities board shall issue a determination that the
18 real property and improvements are not suitable as a school site or as a
19 school if the expenses that would be necessary to make the property suitable
20 as a school site or as a school exceed the value of the proposed donation.

21 2. The district may sell any donated property pursuant to section
22 15-342, but the proceeds from the sale shall only be used for capital
23 projects. The school facilities board shall withhold an amount that
24 corresponds to the amount of the proceeds from any monies that would
25 otherwise be due the school district from the school facilities board
26 pursuant to section 15-2041.

27 J. If the donee is a charter school:

28 1. The charter school shall:

29 (a) Immediately notify the sponsor of the charter school by certified
30 mail and shall furnish the sponsor with any information requested by the
31 sponsor regarding the donation during the ten year period after the
32 conveyance is recorded.

33 (b) Notify the sponsor by certified mail, and the sponsor shall notify
34 the state treasurer, in the event of the charter school's financial failure
35 or if the charter school:

36 (i) Fails to establish a charter school on the property within
37 forty-eight months after the conveyance is recorded.

38 (ii) Fails to provide instruction to pupils on the property within
39 forty-eight months after the conveyance is recorded.

40 (iii) Establishes a charter school on the property but subsequently
41 ceases to operate the charter school on the property for twenty-four
42 consecutive months or fails to provide instruction to pupils on the property
43 for twenty-four consecutive months.

44 2. The charter school, or a successor in interest, shall pay to the
45 state treasurer the amount of the credit allowed under this section, or if

1 that amount is unknown, the amount of the allowable credit under this
2 section, if any of the circumstances listed in paragraph 1, subdivision (b)
3 of this subsection occur. If the amount is not paid within one year after
4 the treasurer receives notice under paragraph 1, subdivision (b) of this
5 subsection, a penalty and interest shall be added, determined pursuant to
6 title 42, chapter 1, article 3.

7 3. A tax credit under this section constitutes a lien on the property,
8 which the donor must record along with the title to the property to qualify
9 for the credit. The amount of the lien is the amount of the allowable credit
10 under this section, adjusted according to the average change in the GDP price
11 deflator, as defined in section 41-563, for each calendar year since the
12 donation, but not exceeding twelve and one-half per cent more than the
13 allowable credit. The lien is subordinate to any liens securing the
14 financing of the school construction. The lien is extinguished on the
15 earliest of the following:

16 (a) Ten years after the lien is recorded. After that date, the
17 charter school, or a successor in interest, may request the state treasurer
18 to release the lien.

19 (b) On payment to the state treasurer by the donee charter school, or
20 by a successor in interest, of the amount of the allowable credit under this
21 section, either voluntarily or as required by paragraph 2 of this subsection.
22 After the required amount is paid, the charter school or successor in
23 interest may request the state treasurer to release the lien.

24 (c) On conveyance of fee simple title to the property to a school
25 district.

26 (d) On enforcement and satisfaction of the lien pursuant to paragraph
27 4 of this subsection.

28 4. The state treasurer shall enforce the lien by foreclosure within
29 one year after receiving notice of any of the circumstances described in
30 paragraph 1, subdivision (b) of this subsection.

31 5. Subject to paragraphs 3 and 4 of this subsection, the charter
32 school may sell any donated property.

33 Sec. 43. Effective date

34 A. Section 43-1074.01, Arizona Revised Statutes, as amended by Laws
35 2008, chapter 290, section 2 and this act, is effective for taxable years
36 beginning from and after December 31, 2009.

37 B. Section 43-1074.01, Arizona Revised Statutes, as added by Laws
38 2008, chapter 290, section 4 and amended by this act, is effective for
39 taxable years beginning from and after December 31, 2017.

40 C. Section 43-1168, Arizona Revised Statutes, as amended by Laws 2008,
41 chapter 290, section 5 and this act, is effective for taxable years beginning
42 from and after December 31, 2009.

43 D. Section 43-1168, Arizona Revised Statutes, as added by Laws 2008,
44 chapter 290, section 7 and amended by this act, is effective for taxable
45 years beginning from and after December 31, 2017.

1 Sec. 44. Requirements for enactment: two-thirds vote

2 Pursuant to article IX, section 22, Constitution of Arizona, this act
3 is effective only on the affirmative vote of at least two-thirds of the
4 members of each house of the legislature and is effective immediately on the
5 signature of the governor or, if the governor vetoes this act, on the
6 subsequent affirmative vote of at least three-fourths of the members of each
7 house of the legislature.